››› Annual Report 2012

Financial Statements and Management Report

DEG - Deutsche Investitions- und Entwicklungsgesellschaft mbH

KFW DEG

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Management Report

DEG – Deutsche Investitions-
und Entwicklungsgesellschaft mbH

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››› DEG at a Glance

EUR million	2012	2011
Finance:		
Total financial commitments in financial year/new business	1,328	1,223
Portfolio (commitment obligation) at year end	5,958	5,647
of which trust business	66	78
Total investments of co-financed enterprises at year end/new business	12,087	6,847
Consultancy and other services		
Income from consultancy services, trust business and other services	14	11
Annual statements of accounts		
Balance sheet total	4,654	4,368
Subscribed capital	750	750
of which paid in	628	628
Reserves	1,068	852
Profit on ordinary activities	160	246
Taxes	31	29
Profit for the financial year	129	218
Withdrawal from purpose-tied reserve fund	3	2
Net income	132	220
Developmental impacts/new business		
Tax revenue p.a.	827	780
Net foreign exchange income p.a.	4,100	698
Newly created and secured jobs (number)	435,000	240,000
direct	164,000	110,000
indirect	271,000	130,000

››› Report by the Supervisory Board

The economic situation in the 2012 financial year was marked by major uncertainties. Of particular significance for the global economy were the debt crisis and the crisis of confidence in the euro area and the slow-down of growth in emerging market countries, especially China. Fortunately, African countries continued to display strong growth – albeit still mainly from a small base. As in previous years with similarly difficult conditions, DEG was able, in keeping with its development mandate, to position itself as a reliable partner to the private sector in developing countries, The volume of new commitments slightly exceeded the EUR 1.3 billion originally planned, and all strategic goals were met.

Advice to and supervision of the Management Board

In the 2012 financial year, DEG's Supervisory Board concerned itself extensively with the company's situation. It advised DEG's Management Board and supervised the proper conduct of that board's activity. DEG's Management Board provided members of the Supervisory Board with regular, timely and comprehensive written and oral reports. Whenever decisions required the consent or cooperation of the Supervisory Board by law, under the Articles of Association, or by standing orders, the Supervisory Board was no less closely involved in the decision-making process than when decisions of fundamental importance to DEG were being taken. DEG's rules and regulations comply with the Public Corporate Governance Kodex des Bundes (German Federal Public Corporate Governance Code PCGC) and meet modern governance standards.

Meetings of the Supervisory Board

During the past year, the Supervisory Board held four regular meetings. It was assisted in carrying out its work by the Audit Committee appointed from among its members, which met twice. Consultations and resolutions relating to DEG's finance business were an integral part of all the meetings of the Supervisory Board.

The Supervisory Board concentrated on setting a sustainable direction for DEG's business. In the context of the Management Board's overall strategic policy, the Supervisory Board discussed business policy for 2013 – 2017, risk strategy including annual planning for 2013, and the medium-term business outlook for 2014 – 2017.

The Supervisory Board further addressed important individual strategic issues such as DEG's involvement in emerging market countries and DEG's provision of sustainable finance in the agricultural sector.

The Supervisory Board welcomed the substantial developmental impacts achieved by DEG projects; in the energy sector, these were confirmed by an external evaluation. The implementation of international environmental and social standards, as documented in DEG's sustainability report, also met with a positive response.

The Supervisory Board also addressed important institutional topics. The future work of the Supervisory Board will be especially affected by the adjustment to the Management Board's exemption limits for measures and business of special importance; this gives the Supervisory Board more scope for fundamental discussions on strategy and business policy.

A priority topic in the Supervisory Board's discussions was DEG's gender equality concept. Progress in promoting women in leadership positions was acknowledged, as was DEG's success in achieving certification in the Hertie Foundation's "Work and Family Audit" programme.

Annual statements of accounts and management report

KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf has audited both the Annual Statements of Accounts and the Management Report drawn up in accordance with statutory regulations. The report on the Annual Statements of Accounts was awarded an unqualified audit certificate.

The Audit Committee appointed by the Supervisory Board reviewed and discussed the Annual Statements of Accounts along with the Management Report, based on the Auditor's Report, and recommended their approval to the members of the Supervisory Board. No objections were raised during a final detailed review by the Supervisory Board. The members of the Supervisory Board agreed with the Audit Committee's recommendations and approved the findings of the Auditor's Report and the Annual Statements of Accounts including the Management Report.

The Supervisory Board recommended that the Shareholder's Meeting adopt the Annual Statements of Accounts for 2012 and discharge the Management Board from its liabilities.

Changes in membership of the Supervisory Board

There were no changes to membership of the Supervisory Board during the previous financial year.

Thanks and appreciation

The Supervisory Board would like to express its gratitude and appreciation to the Management Board for its cooperation, which has been open and marked by a high level of trust.

Special thanks and appreciation are due to DEG's staff. Thanks to their great dedication and capabilities, it has again proved possible to achieve an outstanding result for DEG .

The Supervisory Board is confident that DEG will take advantage of its opportunities and successfully strengthen and expand its position as a major European development finance provider. The Supervisory Board will continue to do all in its power to support the company in this endeavour.

Cologne, 25 March 2013

The Chairwoman of the Supervisory Board
Gudrun Kopp

»» Corporate Governance Report 2012

As a member of KfW Bankengruppe, DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH has made a commitment to act responsibly and transparently, and open up its actions to scrutiny. The Management Board and the Supervisory Board of DEG accept the principles of the German federal government's Public Corporate Governance Code (PCGC) on behalf of DEG. A first Declaration of Conformity in respect of compliance with the code's recommendations was made on 30 March 2011. A declaration and explanation of any departures from the code has been made annually since then.

DEG has operated as a legally independent, wholly owned subsidiary of KfW since 19 June 2001. Its standing orders (Articles of Association, procedural rules for the Supervisory Board and its committees, and procedural rules for the Management Board) specify the basic features of the system via which it is managed and controlled by its corporate bodies.

To implement the PCGC, DEG revised its standing orders in 2010 and integrated the code's recommendations and suggestions into its Articles of Association, the procedural rules for the Supervisory Board and its committees, and the procedural rules for the Management Board.

Declaration of Conformity

The Management Board and the Supervisory Board of DEG make the following declaration: "Since the last declaration of conformity on 26 March 2012, the recommendations of the federal government's Public Corporate Governance Code, passed on 1 July 2009, have been and are being complied with, excepting only the recommendations below."

Deductible for D&O insurance

With effect from 1 January 2013, KfW has entered into new D&O insurance contracts for members of its Executive Board and its Board of Supervisory Directors. As corporate insurance, these contracts extend protection to the members of DEG's Management Board. Whereas previous contracts – in a departure from sub-paragraph 3.3.2 of the code – did not provide for a deductible, the new ones include an option to introduce such a deductible. A decision on whether to exercise the option will be taken in consultation with the chairman and the deputy chairman of KfW's Board of Supervisory Directors. Until such a decision is taken, the departure from paragraph 3.3.2 of the code remains.

Delegation to committees

The Supervisory Board is relieved of a portion of its workload by its committees, which benefit from greater familiarity with the issues and flexibility of scheduling. Where a matter cannot be referred to the Supervisory Board in cases under article 10 section 5 no. 4 of the Articles of Association (measures and transactions of special importance), because a quick decision is required, the Executive Committee is empowered to decide in place of the Supervisory Board in an individual case under article 10 section 8 and in departure from sub-paragraph 5.1.8 of the code. This prevents the company suffering any economic disadvantage due to an extended delay.

Loans for members of corporate bodies

Under the procedural rules for DEG's Supervisory Board and its committees, as well as for the Management Board, DEG is not permitted to grant individual loans to members of the Management and Supervisory Boards. However, in an effort to ensure equal treatment and in a departure from sub-paragraph 3.4 of the code, this ban does not apply to taking advantage of promotional loans provided by KfW programmes. Because the granting of these loans has been standardised, and given the principle of delivery via the borrowers' banks, programme loans present no risk of conflicts of interest.

Cooperation of Management Board and Supervisory Board

The Management Board and the Supervisory Board work closely together for the benefit of DEG. The Management Board, especially its chairman, maintains regular contact with the chairwoman of the Supervisory Board. The Management Board discusses significant issues of corporate management and strategy with the Supervisory Board. If an important cause arises, the chairwoman of the Supervisory Board informs the Board and calls an extraordinary meeting if necessary. No such event occurred in 2012.

In the year under review, the Management Board provided comprehensive information to the Supervisory Board on all corporate issues of relevance to DEG, especially matters to do with profitability, the financial and net worth position, the risk situation, risk management and risk control, and general business development; it also discussed the strategic direction with the Supervisory Board.

On 16. October 2012 the shareholder's meeting decided, on the recommendation of the Supervisory Board, to redefine the limits beyond which measures taken by the Management Board require approval from the Supervisory Board. The purpose was to relieve the Supervisory Board of the burden of individual decision-making and create scope for fundamental strategic and business policy discussions on regional, sector and product-based concepts, strategies and developments.

Management Board

The members of the Management Board conduct DEG's business with the care of a fit and proper business person in accordance with the law, the Articles of Association, the procedural rules for the Management Board and the decisions of the shareholders' meeting and the Supervisory Board.

In the year under review, the members of DEG's Management Board covered the following areas of responsibility:

Bruno Wenn as chairman of the Management Board:
- Corporate Management Division (Depts. Corporate Strategy/Communications, Economy/Development Policy and Human Resources),
- Regions Division 1 (Depts. Africa and Latin America),
- Sectors Division 2 (Depts. Sustainability, Treasury and Finance Sector),
- Internal Audit.

Dr. Michael Bornmann:
- Countries Division 2 (Depts. Asia and Europe/Middle East/Central Asia),
- Sectors Division 1 (Depts. Manufacturing Industry/Services, Agribusiness and Infrastructure),
- Division German Corporates/Special Programmes (Depts. Middle Office, Special Programmes and German Corporates),
- Legal Division.

Philipp Kreutz:
- Finance/Controlling Division (Depts. Transaction Management, Corporate Planning/Controlling and Accounting)
- Risk Management Division (Depts. Credit Review, Special Operations, Portfolio Analysis and Risk Controlling),
- In-house Services Division (Depts. In-house Services, Information Technology and Organisation)

The members of the Management Board are committed to DEG's corporate interest, may not pursue their personal interests in decision-making, and are subject to a comprehensive non-compete obligation while acting for DEG. The members of the Management Board must immediately inform the shareholder of any conflicts of interest arising. During the year under review, no such case occurred.

Supervisory Board

The Supervisory Board advises and monitors the Management Board as it manages DEG.

DEG has a voluntary Supervisory Board. Its membership is made up of representatives of the German federal government, the shareholder, the private sector, the scientific community and civilian society.

Under DEG's Articles of Association, the Supervisory Board shall have a minimum of eight and a maximum of twelve members, of which four shall be representatives of the German federal government – one each from the Federal Ministry for Economic Cooperation and Development, the Federal Ministry of Finance, the Federal Foreign Office and the Federal Ministry of Economics and Technology – and two shall be representatives of KfW. In the year under review, three members of the Supervisory Board were women.

At no time shall the Supervisory Board include more than two former members of the company's Management Board. Furthermore, no-one already exercising more than five control mandates with an enterprise being supervised by the German Federal Financial Supervisory Authority may be appointed as a member of the Supervisory Board. The members proposed by the Federal Government shall as a rule not exercise more than three mandates in supervisory bodies at any one time. Any conflicts of interest shall be disclosed to the Supervisory Board. During the period under review, no such case occurred.

During the year under review one member of the Supervisory Board attended fewer than half of the meetings of the Supervisory Board.

Committees of the Supervisory Board
With a view to achieving greater efficiency in pursuing its advisory and supervisory activities, the Supervisory Board has formed two committees.

The Executive Committee is responsible for discussing personnel matters and the principles of corporate governance as well as – where necessary – preparing for meetings of the Supervisory Board; it also takes decisions on urgent matters.

The Audit Committee is responsible for accounting matters and risk management. It also concerns itself with the effectiveness of the internal control system, with preparations for assigning the auditors, and with setting the priorities for the annual audit. It discusses business strategy, annual planning including the medium-range business outlook, risk strategy and the annual financial statement in preparation for the meetings of the Supervisory Board as a whole.

The committee chairs report regularly to the Supervisory Board. The Supervisory Board is entitled to change or withdraw the competences transferred to the committees at any time.

In its report, the Supervisory Board provides information about its own work and the work of its committees during the year under review. A summary listing the members of the Supervisory Board and its committees may be found on DEG's website.

Shareholder

DEG's sole shareholder is KfW. The shareholders' meeting is responsible for all matters not assigned, by law or by the Articles of Association, to another body as its exclusive responsibility; in particular for: approving the annual statements of accounts and the appropriation of the annual result or net income; determining the sum available within the company for variable remuneration components; appointing and relieving members of the Supervisory Board; discharging members of the Supervisory Board and of the Management Board from their liability; and appointing the auditor of the annual accounts.

Supervision

DEG is a credit institution within the meaning of section 1 (1) of the Banking Act of the Federal Republic of Germany (KWG). The German Federal Financial Supervisory Authority (BaFin) has issued revocable exemptions to DEG as per KWG section 2 (4), which partially exempt it from the provisions of the act. However, DEG does specifically apply the minimum requirements for risk management (MaRisk) mutatis mutandis.

Public benefit

Under article 2 (1) of DEG's Articles of Association, DEG exclusively and directly serves the public benefit purpose of promoting development cooperation as per section 52 of the German Fiscal Code (AO). It operates altruistically within the meaning of AO section 55.

Transparency

DEG makes key information about the company and its annual statements of accounts available on its website. Corporate Communications also provides regular updates on current developments involving the company. The annual Corporate Governance Reports, including the Declaration of Conformity in respect of the Public Corporate Governance Code PCGC, are permanently available on DEG's and KfW's websites.

Risk management

Risk management and risk controlling are key management tasks at DEG. The Management Board draws up the risk strategy, establishing the framework for business activities in terms of risk tolerance and risk capacity. This ensures that DEG is able to maintain an acceptable risk profile and fulfil its special tasks sustainably and over the long term. Monthly risk reports to the Management Board present a comprehensive analysis of the overall risk situation, and adjustments are made where necessary. The Supervisory Board is regularly given a detailed update on the risk situation.

Compliance

DEG's success depends to a significant degree on the trust which shareholders, clients, business partners, staff members and the public place in its efficiency and especially its integrity. This trust is rooted, in part at least, in the implementation of, and compliance with, the relevant legal and regulatory requirements and internal rules as well as other applicable laws and regulations. DEG's compliance organisation includes, in particular, provisions designed to ensure that data protection rules are followed, and to prevent insider trading, money laundering, the financing of terrorism and other criminal activities. Accordingly, there are binding regulations and procedures that influence day-to-day values and corporate culture; these are continuously updated to reflect the legal framework as well as market requirements. Regular training on compliance and money laundering is available to DEG employees.

Accounting and annual audit

On 27 March 2012 DEG's shareholder appointed KPMG AG Wirtschaftsprüfungsgesellschaft as the auditor for the 2012 financial year. The Supervisory Board subsequently issued the audit mandate to KPMG on 15 August 2012 and decided on the priorities for the audit with the auditor. An agreement was reached with the auditor that the chairwoman of the Supervisory Board would be informed immediately of any grounds for disqualification or bias while the audit was ongoing, unless such grounds could be rectified at once. It was additionally agreed that the auditor would instantly inform the chairwoman of the Supervisory Board of any qualified remarks and potential misstatements in the Declaration of Compliance with the PCGC. A declaration of the auditor's independence was obtained.

Efficiency review of the Supervisory Board

The Supervisory Board regularly reviews the efficiency of its activities. This efficiency review is carried out biannually. The Supervisory Board's next self-evaluation, which will apply to the 2012 financial year, is due to be conducted using structured questionnaires. The overall results of the 2010 survey were very positive. Both the Supervisory Board and the Management Board seized on opportunities for improvement. Those concerned are continuously engaged in implementing and monitoring these.

Compensation Report

The compensation report describes the basic structure of the remuneration system for the Management Board and the Supervisory Board and discloses the individual remuneration for members of both boards. The compensation report is part of the appendix to the annual statements of accounts.

Remuneration of the Management Board

The remuneration system for DEG's Management Board is designed to provide appropriate compensation to board members in accordance with their remit and areas of responsibility, taking into account their performance and the institution's success.

Remuneration components

On 30 March 2011 DEG's Supervisory Board voted to retain without change the remuneration system for DEG's Management Board agreed on 18 March 2010. This system meets PCGC rules on variable remuneration components and includes a balanced mix of short and medium-term incentives. For instance, only half of performance-related management bonuses, as measured by the attainment of goals, is immediately paid to the Management Board; the other half only constitutes a provisional claim and is paid out from a "bonus account" in equal instalments over the following three years, provided business performance has not declined substantially. If the agreed profitability target is not met in subsequent years, payments from the bonus account shall be subject to a penalty.

The following summary shows total compensation broken down by fixed and variable components and benefits in kind. It also shows transfers to pension provision for individual members of the Management Board as well as the balance of the bonus account.

Responsibility

The Executive Committee discusses the remuneration system for the Management Board, including contractual elements, and reviews it regularly. The Supervisory Board agrees the

Compensation for the Management Board and members of the Supervisory Board [1)]

EUR thousand	2012	2011	Change
Management Board	1,225	1,182	43
Previous members of the Management Board & surviving dependants	729	783	-54
Members of the Supervisory Board	13	16	-3
Total	**1,967**	**1,981**	**-14**

[1)] Discrepancies due to rounding may occur in the table for computational reasons.

basic structure of the remuneration system for the Management Board in response to a proposal from the Executive Committee.

Benefits in kind

Benefits in kind primarily include contractual fringe benefits. Members of the Management Board are entitled to a company car and driver for both business and personal use. Any costs incurred as a result of personal use of the company car and driver are met by the members of the Management Board as per current tax regulations. If a second residence is required for business purposes, the costs of running a second household are reimbursed as per tax regulations.

Members of the Management Board are insured under a group accident insurance policy. Health and long-term care insurance are subsidised. In respect of the risks associated with their activities on the governing bodies, members of the Management Board are insured under a policy that covers their liability for monetary damages (D&O insurance) and a supplementary policy covering them for monetary damages and legal expenses. These insurance policies are designed as KfW group insurance. The D&O insurance provides protection from financial losses that may result from of the performance of the duties of a member of DEG's Management Board. While there was no deductible associated with this insurance under previous contracts, the new contracts which came into force on 1 January 2013 include the option to introduce a deductible. A decision on whether to exercise this option will be taken in consultation with the chairman and deputy chairman of KfW's Board of Supervisory Directors. Members of DEG's Management Board are also covered in the exercise of their duties by a special policy for employees that meets any legal expenses incurred as a result of criminal prosecution. This insurance was taken out as a group insurance policy by KfW.

Like all senior executives, members of the Management Board are entitled to participate in the deferred compensation scheme, a supplementary company pension plan via deferred compensation payments deducted from salary.

Contractual fringe benefits also include the costs of security measures carried out at residential properties occupied by members of the Management Board; the provision of this security is accounted for under operating charges rather than as benefits in kind.

Entitlement to retirement pension and other benefits in case of early retirement or departure

Under Article 5 section 1 of the Articles of Association of DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH the appointment of a member of the Management Board shall not extend beyond attainment of the statutory retirement age. After reaching the age of 65 or statutory retirement age respectively, and following expiry of their contract of employment as executive directors, members of the Management Board are entitled to pension payments. At their own request, they may take early retirement once they have reached the age of 63. Members of the Management Board are equally entitled to pension payments if their service ends due to permanent invalidity.

Pension commitments for members of the Management Board and surviving dependants are based on the principles governing the employment of board members at German federal credit institutions (1992 version). In drawing up contracts of employment for executive directors, DEG takes account of the PCGC.

Annual compensation of members of the Management Board and transfers to pension provision for 2011 and 2012

EUR thousand		Salary	Variable compensation	Benefits in kind	Total [1]	Bonus account	Transfers to pension provision
Bruno Wenn (Chairman)	2012	327.0	53.6	24.5	**405.1**	67.2	164.0
	2011	327.0	41.0	23.4	**391.4**	41.0	115.0
Dr. Michael Bornmann	2012	327.0	53.1	35.3	**415.4**	66.3	119.8
	2011	327.0	39.5	35.1	**401.6**	39.5	-49.4
Philipp Kreutz	2012	327.0	53.6	23.3	**403.9**	67.2	41.3
	2011	327.0	40.8	21.2	**389.1**	40.8	94.2
Total [1]	**2012**	**981.1**	**160.3**	**83.0**	**1,224.4**	**200.7**	**325.1**
	2011	**981.1**	**121.3**	**79.6**	**1,182.1**	**121.3**	**159.8**

[1] Discrepancies due to rounding may occur in the table for computational reasons.

Retirement pensions for former members of the Management Board or surviving dependants

	Number 2012	EUR thousand 2012	Number 2011	EUR thousand 2011
Former members of the Management Board	5	524.2	6	**661.0**
Surviving dependants	3	205.2	3	**122.1**
Total	**8**	**729.4**	**9**	**783.1**

Where members of the Management Board were appointed or re-appointed as management executives after 2011, a cap on any severance package has been included in their contracts of employment as management executives in keeping with the recommendations of the PCGC. Any pay-off to a member of the Management Board due to early termination of their management activities without an important cause as per Article 626 of the German Civil Code, will accordingly be limited to double their annual salary or the compensation, including fringe benefits, due for the remaining period of the contract, whichever is lower.

In general, full retirement pension entitlement is equivalent to 49% of annual fixed remuneration. At initial appointment, the retirement pension entitlement routinely amounts to 70% of the full entitlement and rises over a period of ten years by 3% for every completed year of service.

If the employment contract of a member of the Management Board is terminated, or not renewed, for a significant reason as per Article 626 of the German Civil Code, any pension entitlements are void in keeping with the principles developed by employment contract case law.

The retirement pensions payable to former members of the Management Board or their surviving dependants amounted to EUR 783.1 thousand in 2011 and EUR 729.4 thousand in 2012.

EUR 40.7 thousand were transferred in respect of pension obligations towards former members of the Management Board and their surviving dependants as at the end of the financial year (prev. year: withdrawal of EUR 1,099.2 thousand).

No loans were provided to former members of the Management Board or their surviving dependants in the 2012 financial year.

Compensation for the Supervisory Board

Members of the Supervisory Board receive appropriate annual compensation, the level of which is set by the shareholders' meeting as per article 13 (1) of DEG's Articles of Association, taking account of DEG's character as an institution serving the public benefit. In the year under review, compensation for ordinary members amounted to EUR 2,045. Chairmanship of the Supervisory Board attracts compensation in the sum of EUR 3,323, while the two deputy chairmen receive EUR 2,556 each.

Members of the Audit Committee each receive annual compensation of EUR 511, provided their fixed remuneration does not exceed EUR 2,045; membership of the Executive Committee does not attract separate compensation, nor does chairmanship of the committees.

Where membership only covers part of a year, remuneration is paid pro rata. An attendance fee (EUR 31 per day of attendance), a daily allowance (EUR 12 per day of attendance) and an accommodation allowance (EUR 20) are paid on request. Travel expenses which have been incurred and value-added tax which is payable are reimbursed.

As of 1 July 2011 representatives of KfW serving on the Supervisory Board of DEG have declined to claim remuneration and attendance fees. This is in accordance with a fundamental and open-ended decision by the Supervisory Board of KfW.

The following tables provide details of the Supervisory Board's remuneration for the 2011 and 2012 financial years; the sums shown are EUR net and have all been paid. Travel expenses and other miscellaneous expenses were reimbursed on presentation of receipts and are not included in the table.

There are no pension obligations towards members of the Supervisory Board.

In the year under review, members of the Supervisory Board received no remuneration for services provided personally. No direct loans were made to members of the Supervisory Board during the year under review.

Cologne, 25. March 2013

Management Board Supervisory Board

Compensation of members of the Supervisory Board for the 2011 and 2012 financial years

EUR

No.	Name	Period of membership 2012	Supervisory Board Membership	Committee membership	Daily allowance & attendance fee	Total [4]
1.	Gudrun Kopp [1]	1 Jan to 31 Dec	-	-	-	**0**
2.	Dr. Norbert Kloppenburg [1]	1 Jan to 31 Dec	-	-	-	**0**
3.	Dr. Hans-Jörg Todt	1 Jan to 31 Dec	2,556	-	179	**2,735**
4.	Dr. Harald Braun [2]	1 Jan to 31 Dec	2,045	-	62	**2,107**
5.	Eberhard Brandes [3]	1 Jan to 31 Dec	2,045	-	-	**2,045**
6.	Ernst Burgbacher [1]	1 Jan to 31 Dec	-	-	-	**0**
7.	Cécile Couprie [1]	1 Jan to 31 Dec	-	-	-	**0**
8.	Arndt G. Kirchhoff	1 Jan to 31 Dec	2,045	-	43	**2,088**
9.	Hartmut Koschyk [1]	1 Jan to 31 Dec	-	-	-	**0**
10.	Siegmar Mosdorf	1 Jan to 31 Dec	2,045	-	172	**2,217**
11.	Dr. Ulrich Schröder [1]	1 Jan to 31 Dec	-	-	-	**0**
12.	Prof. Dr. Beatrice Weder di Mauro	1 Jan to 31 Dec	2,045	-	-	**2,045**
Gesamt [4]			**12,781**	**0**	**456**	**13,237**

EUR

No.	Name	Period of membership 2011	Supervisory Board Membership	Committee membership	Daily allowance & attendance fee	Total [4]
1.	Gudrun Kopp [1]	1 Jan to 31 Dec	-	-	-	**0**
2.	Dr. Norbert Kloppenburg	1 Jan to 31 Dec	1,268	253	86	**1,607**
3.	Dr. Hans-Jörg Todt	1 Jan to 31 Dec	2,556	-	215	**2,771**
4.	Dr. Peter Ammon [2]	1 Jan to 19 Jul	1,115	-	43	**1,158**
5.	Dr. Harald Braun [2]	6 Sep to 31 Dec	656	-	86	**742**
6.	Eberhard Brandes [3]	1 Jan to 31 Dec	2,045	-	-	**2,045**
7.	Ernst Burgbacher [1]	1 Jan to 31 Dec	-	-	-	**0**
8.	Arndt G. Kirchhoff	1 Jan to 31 Dec	2,045	-	-	**2,045**
9.	Hartmut Koschyk [1]	1 Jan to 31 Dec	-	-	-	**0**
10.	Siegmar Mosdorf	1 Jan to 31 Dec	2,045	-	172	**2,217**
11.	Marianne Sivignon-Lecourt [1]	1 Jan to 7 Jun	-	-	-	**0**
12.	Cécile Couprie [1]	6 Sep to 31 Dec	-	-	-	**0**
13.	Dr. Ulrich Schröder	1 Jan to 31 Dec	1,014	-	-	**1,014**
14.	Prof. Dr. Beatrice Weder di Mauro	1 Jan to 31 Dec	2,045	-	-	**2,045**
Gesamt [4])			**14,788**	**253**	**602**	**15,643**

1) Remuneration not claimed

2) The German federal regulation on secondary employment applies to this sum

3) Remuneration donated to WWF

4) Discrepancies due to rounding may occur in the table for computational reasons.

››› Management Report for 2012

BUSINESS DEVELOPMENT AND CLIMATE

For 50 years DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne, has been promoting the private sector in developing and emerging market countries (partner countries) via entrepreneurial development cooperation. Jobs and an income are essential prerequisites if people's living conditions are to be improved and poverty overcome. The most important driver in achieving this is entrepreneurial initiative. By far the most jobs are created in the private sector. That is why DEG finances economically and developmentally sustainable investments by private sector enterprises with loans, guarantees, participating interests, and loans with equity features.

As a pioneer investor, DEG enters future markets and promotes private sector initiative and the development of the financial sector in those markets. It demonstrates that entrepreneurial commitment is possible even in difficult conditions and boosts the leverage effect of its development activities by mobilising additional private-sector capital.

German enterprises can make an important contribution to development by becoming involved, and they benefit from major opportunities in developing and emerging market countries. That is why DEG finances and supports the activities of medium-sized German enterprises in these countries.

DEG thinks and acts like an entrepreneur within the scope of its activities. That includes generating earnings commensurate with the risks and aiming to achieve a return on equity that will enable it to increase its risk capacity and take advantage of opportunities through both qualitative and quantitative growth.

Sustainable entrepreneurial success is not only determined by economic factors, but also by ecological and social factors. That is why DEG promotes high ecological and social standards and advises the enterprises it co-finances on their implementation.

DEG is one of the leading European development finance institutes and works closely with other development finance providers. Cooperation agreements help in jointly achieving greater efficiency and visibility and make a greater impact. A special priority is cooperation with its partners in the association of European Development Finance Institutions (EDFI).

As a specialist in promoting the private sector in developing and emerging market countries, DEG is a mainstay of KfW Bankengruppe's involvement in foreign countries. Together with KfW Entwicklungsbank and KfW IPEX-Bank GmbH, it shapes KfW's range of international finance. As a development institution with a development policy mandate, DEG operates on the subsidiarity principle. It provides finance where the market does not offer finance for enterprises, either at all or in insufficient measure.

Comprehensive knowledge of the economic and political conditions in investment countries, close links to clients and a permanent local presence are necessary if the development policy mandate is to be effectively fulfilled. In 2012 DEG maintained a presence in thirteen locations, with representative offices and offices in: Accra for West Africa, in Bangkok for Thailand, Bangladesh, Cambodia, Laos, Myanmar and Vietnam, in Istanbul for Turkey and the Middle East, in Jakarta for Indonesia, in Johannesburg for southern Africa, in Lima for die Andean countries, in Mexico City for Central America, in Moscow for the Russian Federation, in Nairobi for East Africa, in New Delhi for India, in Beijing for China and Mongolia and in São Paulo for the Mercosur region. In 2012, a regional office for Asia was added in Singapore, the most important financial centre in South-East Asia. DEG also has the option of sharing the use of KfW Bankengruppe's roughly 70 representative offices.

In 2012 global economic growth weakened further over the course of the year, as expected. The continuing financial and government debt crisis in the Euro area had an unsettling effect on investors and markets throughout the world, leading to recession in the Eurozone. Relatively weak economic growth and disagreements on fiscal policy in the USA did not help to calm nerves. The group of emerging market and developing countries also experienced an economic slowdown, although in a global comparison, they continued to be the main supporters of growth.

Global economic growth rose by approximately 2.3% as against 2.7% in 2011. Emerging market and developing countries achieved a rise of around 5% on average. Compared to the previous year, Africa displayed a stronger rate of growth, unlike Asia and Latin America, where the trend was downwards at times. The industrialised nations registered growth of only approx. 1,3%.

The generally lacklustre development had no impact on DEG's new business in the year under review, especially since the effects in its partner countries were generally limited. Once again, demand for its financing and arrangement services was high.

In 2012 DEG was able to expand its development business further. With financial commitments of EUR 1,328 million it achieved a new record in its 50th anniversary year (2011: EUR 1,223 million). Disbursements were slightly higher at EUR 1,094 million than the previous year's total of EUR 1,078 million. The 2012 commitments will enable entrepreneurial investments with a total volume of EUR 12,087 million (2011: EUR 6,847 million). This substantial increase was due to large-volume infrastructure investments.

The commitment obligation (own account and trust business portfolio) rose to EUR 5,958 million at 2012 year end (2011: EUR 5,647 million). It was distributed across 575 enterprises in 82 partner countries and displayed a stable risk structure.

The result from ordinary activities before provision for risk was EUR 222 million (2010: EUR 201 million). The increase was mainly due to higher income from participating interests, both dividends and disposals.

After the global economic recovery had led to a credit enhancement for many enterprises during the previous year, economic developments in the 2012 financial year were inconsistent, varying by region. Provision for risk was accordingly increased by EUR 63 million net. (2011: net write-back of EUR 45 million).

The result from ordinary activities was EUR 160 million (2011: EUR 246 million). After taxes, a profit for the financial year of approx. EUR 129 million remained (2011: EUR 218 million). After taking into account withdrawals from the purpose-tied reserve fund for complementary measures to improve the developmental quality of schemes, net income for 2012 was EUR 132 million (2011: EUR 220 million).

The further increase in equity due to the level of retained earnings creates the necessary foundation which will allow DEG's development business to achieve moderate expansion over the coming years as planned.

Events in the year under review

New strategy process

In 2012 DEG continued to develop its strategy process and carried out a strategy review; in future, this will be an annual process. Regular scrutiny will permit a systematic examination of DEG's strategic direction based on a strategy loop and identify any necessary adjustments. This will ensure that changes in the business environment and market developments are taken into account. Based on the results of the 2012 review, DEG has developed a strategic future vision, and worked out a business strategy for the period 2013 to 2017 and a package of measures.

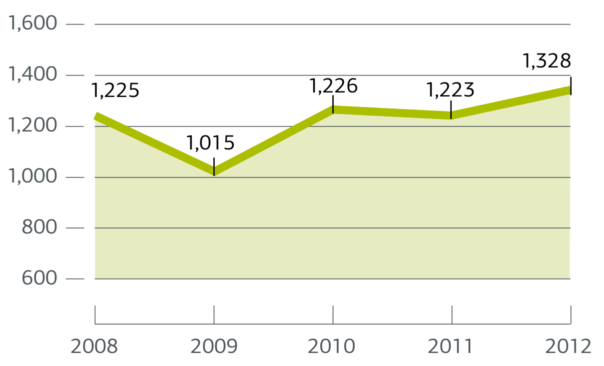
DEG at 50

"Courage to develop" – that was the motto under which DEG celebrated its 50th anniversary. As well as holding an open day that attracted twelve hundred visitors, it gave the public a greater insight into its work and the enterprises it promotes by launching a series of films and an anniversary magazine, and providing information on the web. The concluding highlight of the anniversary year was a discussion on the theme of "Responsible Business – Shaping the Future with Courage", followed by an official ceremony at which the former Federal President of Germany, Horst Köhler, gave the main address.

FIELDS OF BUSINESS

In the 2012 financial year DEG committed EUR 1,328.0 million for 108 investment schemes, generating the highest volume of new business in its history (2011: EUR 1,222.5 million).

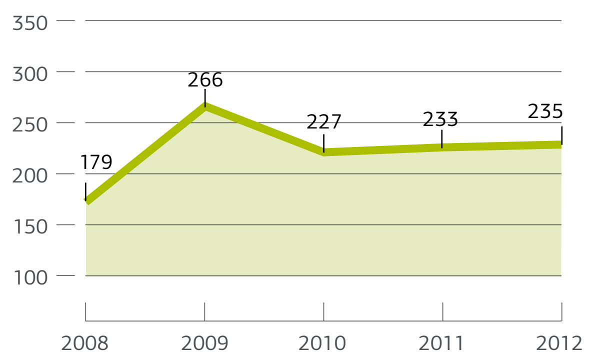
Development of annual financial commitments
EUR million



The structural targets for new business laid down in its 2012 business strategy – Africa, small and medium-sized enterprises (SMEs), climate and environmental protection, risk capital and finance for German enterprises – were all either met or exceeded.

As a pioneer investor, DEG is involved in partner countries that are important in terms of development policy, especially in Africa. In 2012 it was able to commit funds in the amount of EUR 234.7 million (2011: EUR 232.9 million) for investments in continental Africa.

New financial commitments for investments in Africa
EUR million



Once again, DEG made a specific effort to improve the provision of long-term finance for small and medium-size enterprises (SMEs). Roughly EUR 465.4 million of the finance committed went to such enterprises.

EUR 384.2 million of new commitments were allotted to investments in climate protection (2011: EUR 193.1 million). The increase was mainly due to a rise in commitments for energy efficiency investments. An additional EUR 13.8 million in funds from develoPPP.de were made available along with complementary measures germane to climate protection (2011: EUR 7.5 million). In all, EUR 564.5 million of new commitments related to schemes to promote climate protection, adaptation to climate change and protection of the environment.

Risk capital finance – equity stakes and loans with equity features – accounted for a commitment volume of EUR 506.4 million in 2012, a similar level to the previous year's record (2011: EUR 508.6 million).

In 2012, DEG considerably increased the finance and support it provided to German enterprises investing in emerging market and developing countries. It made EUR 182.3 million available to German businesses – a new record for this segment (2011: EUR 98,6 million). Most of the co-finance is destined for investments in the manufacturing industry, including in Mexico and the Russian Federation.

Financial commitments for 2012 were spread across 40 countries (2011: 42). Among the least developed countries (LDC) in which DEG made funds available were Ethiopia, Bangladesh and Uganda.

The lion's share of commitments for 2012, EUR 496.6 (2011: EUR 348.1 million), went to schemes in Latin America; Asia came second with EUR 388.4 million (EUR 418.4 million). Of EUR 234.9 million in commitments for Africa, EUR 204.1 million were for the region of Sub-Saharan Africa (EUR 219.4 million). In total, the Europe/Caucasus region received commitments of EUR 205.0 million (EUR 186.3 million), of which EUR 187.7 million were allocated to Eastern and South-Eastern Europe (EUR 138.0 million). One supra-regional scheme accounted for EUR 3.1 million (EUR 6.4 million).

DEG committed EUR 352.2 million for investments in the manufacturing industry (2011: EUR 269.7 million). The increase was due to demand being higher than the year before. Enterprises in the industrial and manufacturing sectors play a significant role in creating skilled jobs and transferring knowledge and technology. In 2012, DEG made investment capital available to automobile industry suppliers, recycling businesses and textile producers, among others.

Infrastructure schemes were allotted more than EUR 279.7 million in commitments (2011: EUR 342.2 million). In many developing and emerging market countries, poor infrastructure is a significant impediment to further development, and the demand for investment is extremely high. Schemes are increasingly being implemented in cooperation with the private sector. The funds committed by DEG in 2012 will mainly be used to finance power plants generating energy from renewables.

In agribusiness and the food industry, in many developing countries a crucially important economic sector upon which many incomes depend, DEG was able to expand its involvement considerably. It committed EUR 212.8 million for investments, especially in local processing and farming services (2011: EUR 86.1 million). Finance for the service sector also hit a new record with EUR 102.4 million (EUR 18.9 million). This included mainly tourism schemes.

In the financial sector, DEG committed EUR 380.9 million in 2012 (2011: EUR 505.6 million). The funds are mainly intended to improve finance options for smaller and medium-sized enterprises, which rarely have access to investment capital.

Lendings accounted for EUR 978.7 million of new commitments (2011: EUR 945.1 million), of which EUR 157.0 million were arranged as loans with equity features (2011: EUR 235.0 million). Lendings in US dollars amounted to the equivalent of EUR 806.8 million (2011: EUR 699.6 million). EUR 349.3 million of newly committed funds were for equity participations (2011: EUR 273.6 million). No funds were committed for guarantees in 2012 (2011: EUR 3.8 million).

At 2012 year end, the net commitment-portfolio amounted to EUR 5,957.9 million (EUR 2011: 5,646.9 million), an increase of 5.5%. By far the largest proportion was finance at own risk with EUR 5,892.0 million. Trust business with funds from the German federal government and the European Union amounted to EUR 65.9 million, which included EUR 44.9 million in loans from business start-up programmes.

Cooperation with other development finance providers

DEG places great reliance on international networks. For many years, it has been working closely with its European partner institutions in the association of "European Development Finance Institutions (EDFI)". In view of the growing importance of entrepreneurial development cooperation, the association aims to increase the visibility of such cooperation internationally, step up cooperation within the European Union, and further expand the European financing partnerships.

As partners in the co-financing vehicle European Financing Partners (EFP), the European Investment Bank (EIB), DEG and twelve other EDFI members have been promoting entrepreneurial investments in partners in the African, Caribbean and Pacific regions (the ACP Group of States) since 2003. To date, approximately EUR 800 million have been made available for investments, mainly in Africa. Eleven EDFI members, EIB and the Agence Française de Développement (AFD) are also partners in the "Interact Climate Chance Facility (ICCF)" designed to finance climate-friendly schemes. It has been allocated approx. EUR 305 million for the purpose. In 2012 EUR 108 million were made available for six schemes under the ICCF umbrella.

With a view to increasing their cooperation, the three largest EDFI members – DEG, Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) for the Netherlands, and the Société de Promotion et de Participation pour la Coopération Economique (PROPARCO) of France have subscribed to a cooperation agreement. The "Friendship Facility Cooperation Agreement" came into force in 2012, and a joint office was opened in South Africa. Together, they committed loan and equity participation finance with an overall volume of EUR 736 million in 2012 for 19 new involvements.

Financing programmes

The development programmes carried out by DEG under its mandate are designed to promote investments by private enterprises that make sense in development policy terms. Public funds are used in tandem with the enterprises' own funds for this purpose. In addition, DEG carries out complementary measures at its own cost to enhance the developmental impact and structure the schemes in such a way that they meet the requirements for co-financing by financial institutions. In total, 172 projects received approval in 2012.

Under the programme for development partnerships with the private sector ("Entwicklungspartnerschaften mit der Wirtschaft") operated by the Federal Ministry for Economic Cooperation and Development (BMZ), funds were made available for develoPPP.de as well as for complementary measures, feasibility studies, grants for transaction costs, and a programme of innovation vouchers.

"develoPPP.de" helps German and other European enterprises to carry out measures that benefit development. As a rule, co-finance is provided for up to EUR 200,000 per measure. In 2012 EUR 16,4 million in BMZ funds were made available for new commitments and current projects. 73 develoPPP.de projects were approved in the year under review. Almost two thirds related to the priority themes of resource conservation, climate protection and energy.

To further enhance the developmental effects of schemes it promotes, DEG carries out complementary measures. Enterprises may receive support to improve energy efficiency or set up risk-appropriate environmental and social management systems. In 2012 EUR 4.7 million were paid out for 80 complementary measures for which DEG had made commitments. Of this, BMZ funds accounted for EUR 2.2 million, and EUR 2,5 million were provided by DEG.

DEG uses BMZ funds to co-finance feasibility studies by German and European enterprises in preparation for specific investment schemes. It contributes a maximum of 50% to the cost, up to a ceiling of EUR 200,000 per scheme. BMZ made EUR 1.4 million available for this purpose in 2012. Co-finance was committed for ten studies. Four schemes by smaller German medium-sized enterprises in Brazil, China, Mexico and Russia were made possible with grants for transaction costs from BMZ funds of EUR 140,000. This means that medium-sized enterprises are able to receive smaller volumes of DEG finance for long-term investments. In India, an innovation voucher programme was launched in 2012 with BMZ funds of EUR 200,000. Local SMEs are given vouchers to promote technology and research & development; this allows them to use external service providers whenever they lack the skills in-house. The scheme will run for a year and is designed to trial the effectiveness of this tool of development cooperation over the period.

The programme “Climate partnerships with the private sector”, run on behalf of the Federal Ministry for the Environment, Nature Conservation and Reactor Safety (BMU) is designed to promote climate-friendly technologies in developing and emerging market countries. In 2012 BMU provided EUR 0.8 million for two schemes.

In Afghanistan DEG continued with its work of promoting small local businesses via a loan guarantee fund with funds from BMZ and USAID. In 2012 some 512 guarantees were issued for loans with a volume of USD 16.4 million. Since the loan guarantee fund was set up, guarantees for around 2,600 loans with a volume of USD 93.4 million have been issued The portfolio’s non-performing loan (NPL) ratio (1.4%) is gratifyingly low, especially given the difficult country.

The first phase of the “Competitive African Cotton Initiative (COMPACI)” was brought to a successful conclusion in late 2012. Using funds from the Bill & Melinda Gates Foundation and BMZ, the initiative is designed to improve income levels for African cotton farmers. Based on an agreement with the Bill & Melinda Gates Foundation, DEG and the Deutsche Gesellschaft für Internationale Zusammenarbeit (German Society for International Cooperation GIZ) were instructed to carry on with the initiative. USD 59.1 million have been made available for the 2013-2015 period. The initiative is designed to benefit 470,000 smallholders.

In 2012 DEG was also instructed by the Bill & Melinda Gates Foundation to undertake stewardship of the “Coffee Partnership for Tanzania (CPT)” for 85,000 coffee farmers. The programme has a volume of USD 31.6 million. Both schemes are being carried out jointly with prestigious German businesses.

NON-FINANCIAL PERFORMANCE INDICATORS

Developmental impacts

In order to control and evaluate the quality of its involvements in relation to business and development policy, DEG uses Corporate Policy Project Rating (Geschäftspolitisches Projektrating GPR) for both ex-ante and ex-post analyses. Each scheme is assessed and awarded points in four categories and then assigned to a developmental quality group. The GPR tool developed by DEG is now used by 15 international finance institutions.

The evaluation of new commitments for 2012 showed a clear improvement in developmental quality over the previous year, with an average rating of 2.0 (2011: 2.4). This was due to better quantitative effects in relation to jobs, government revenues and net foreign exchange income. Through their tax payments, the co-financed enterprises are likely to contribute approx. EUR 827 million annually to government revenues in partner countries and earn around EUR 4.1 billion in net foreign exchange income. Such substantial contributions from the private sector mean that budget deficits can be reduced. They can also give a sustainable boost to foreign exchange revenue and enable investments.

Approximately 435,000 jobs have been created or secured as a result of the investments co-financed by DEG; roughly 164,000 of these are in the enterprises concerned, and some 271,000 are with suppliers and with ultimate borrowers in financial sector projects. More than half of the jobs have been created as a result of agricultural projects that have integrated smallholders and suppliers into the value chain.

73% of schemes co-financed contribute directly to achieving the International Millennium Development Goals (MDG) (2011: 63%), mainly to ensuring environmental sustainability, eradicating extreme poverty, and promoting gender equality. Many of the enterprises co-financed by DEG also subscribe to comprehensive corporate social responsibility. They pay above-average wages, offer pension or health insurance benefits, and set up health centres, nurseries and schools.

Sustainability

An important condition of DEG’s involvement is that, in addition to being economically sustainable, any investment scheme it co-finances must be environmentally and socially sound, and co-financed enterprises must agree to show commitment in this respect. Promoting investment in developing countries offers considerable opportunities to improve the environmental and social situation on the ground, but there may also be significant inherent risks. That is why the evaluation of environmental and social risks is part and parcel of the overall risk assessment carried out by DEG. For every scheme, it verifies whether human rights are being respected, fair working conditions are being offered, and activities are carried out in an environmentally responsible way. Doubtful business activities such as arms manufacturing, tobacco growing, and the conversion of forests worthy of protection are not eligible for DEG finance.

For all the investment projects to which DEG committed finance in 2012, the enterprises concerned entered into a contractual commitment to comply with national regulations and also to meet international environmental and social standards. This includes the IFC performance standards (revised version 2012) by way of environmental and social standards, and the core labour standards set up by the International Labor Organization (ILO).

By agreeing environmental and social action plans, DEG again took on an important role in schemes where the environmental and social risk was potentially greater. Its aim was to improve the situation in the enterprises in question while also promoting the spread of international standards in its partner countries. DEG closely supported the enterprises as they implemented the requirements set down in the action plan and worked with them to solve any issues arising. DEG tracks the agreed activities and steps for the entire duration of the schemes.

Environmentally responsible action also extends to DEG's own operations. In addition to the health and safety of its staff, the sparing use of resources is a priority. DEG's headquarters building again recorded low consumption figures for 2012. As part of the KfW Bankengruppe's policy of maintaining a climate neutral rating, all DEG's CO2 emissions are offset by the purchase and retirement of emission credits.

Personnel

DEG's highly qualified employees are committed to fulfilling their tasks and meeting DEG's goals. In doing so, they make a significant contribution to its business success. DEG benefits from their diverse academic backgrounds, professional careers and cultural heritage. Knowledge and experience of banking are just as useful as a detailed focus on specific countries or industries and a strong internationalist bent linked to development policy expertise. As well as employing highly skilled experts, DEG brings talented junior employees into the fold to ensure it is fit for the future.

At 2012 year end DEG retained 480 employees (2010: 457). Staff numbers broke down into three members of the Management Board, 332 staff outside regular pay scales – of which 51 are senior executives –, 128 staff on regular pay scales and 17 apprentices. This included 70 part-time employees (2010: 58). 247 members of staff (51.5%) were female (2011: 51.2%), while male employees accounted for 48.5% (48.8%) of the total. The average age was 42.4 years (2011: 42,6). The proportion of severely disabled people was 3.6% (2011: 3,4 %). A total of 20 members of staff were employed in DEG's representative offices, supported by 34 local experts.

The existing extensive programme of training and development with a wide range of subject-specific and generic modules was expanded in 2012 by adding extra qualification instruments and programmes. This not only involved comprehensive additional qualifications for existing and prospective senior executives, but also extended to specialists. For instance, the existing intensive qualification programme for senior executives was supplemented by introducing a "Professional Development Programme" for DEG's specialists. This programme takes advantage of networks at KfW and within the context of EDFI. In the year under review, DEG invested just under EUR 1.2 million (2011: EUR 1.2 million) in professional development and qualification measures.

DEG offers a trainee programme for junior employees which was successfully completed by five female and four male university graduates in 2012. It continues to give strong support to initial vocational training. In 2012 seven apprentices began their training at DEG: three female management assistants in office communications, three male cooks and one female IT specialist. DEG continued to support ten students at Cologne University with scholarships in a programme that has been ongoing since 2011.

The main element of staff remuneration is a fixed salary consisting of thirteen monthly payments. A variable, appropriately limited share of the remuneration is awarded based on the success of the business and on individual performance. The principles governing DEG's remuneration system are laid down in the corporate agreement on compensation management.

At the beginning of every new financial year, DEG enters into a personal goal agreement with all members of staff. The goals specified in the agreement are partly based on DEG's strategic targets. The scale of the maximum possible variable remuneration depends on career level and is set in percentages of the basic annual salary. Members of DEG's Management Board receive a management bonus that depends on defined quantitative and qualitative goals being achieved; payment of 50 per cent of this bonus is staggered over a period of several years.

Remuneration 2012

	Number of staff (number of beneficiaries of variable remuneration)	Total fixed salaries (gross) EUR million	Management bonus 2012 (for performance in 2011) EUR million	Bonus 2012 (for performance in 2011) EUR million
Staff on regular pay scales	159* (97 beneficiaries)	5.9	-	0.2
Staff outside regular pay scales	353* (293 beneficiaries)	26.0	4.1	-
Management Board	3	1.0	0.2	-

* Staff numbers include everyone who was active in 2012, everyone who left during the year, and everyone who was entitled to a proportion of the management bonus for 2011. Beneficiaries refers to all members of staff who received variable remuneration in 2011 as a result of achieving agreed goals.

DEG's social benefits include employer contributions to various corporate pension schemes, group accident insurance, and the granting of loans. There are also recuperation allowances, special benefits in case of illness and other emergencies, and a childcare allowance. DEG provides its employees with a free pass for travel on public transport, also for environmental reasons. It also supports preventative health measures and corporate sporting activities. In addition to providing occupational medical care, DEG ran a seminar on combating stress in 2012 and provided employees with training on aspects of safety during business trips.

Equality, diversity and the work/family balance are key elements of DEG's human resources policy. As part of its efforts, it completed the Hertie Foundation's "Work and Family Audit" programme and achieved certification in 2012. This involved committing itself to a range of measures designed to help staff reconcile the demands of work and family. By taking these steps, DEG has positioned itself as an attractive employer.

DEG supports an increase in the number of women in leadership positions. As a result of a transparent process to assess potential, eight women had been appointed to executive roles in 2011. Two further appointments followed in 2012. That means women now make up 26% of DEG's senior executives (2011: 25%).

The Management Board would like to express its gratitude to all members of staff for their energetic, dedicated and highly motivated service. They made a significant contribution to DEG's outstanding success in fulfilling its mandate during its anniversary year and meeting its ambitious corporate goals. Thanks are also due to the employees' representative bodies – the Staff Council and the Economic Committee – as well as the Senior Staff Council for their cooperation, which has again proved loyal and extremely constructive.

PROFITABILITY

In 2012, the operating result before provision for risk was EUR 222.5 million (2011: EUR 201.1 million). The increase was mainly thanks to a better result from participating interests.

The good result from participating interests was due both to a rise in income from participating interests in the form of dividends received, and higher than usual other operating income from the disposal of participating interests. Income from participating interests increased in particular because of higher fund distributions of EUR 26.8 million (2011: EUR 18.8 million), while income from the disposal of participating interests rose to EUR 87.5 million (EUR 66.6 million). Of this, EUR 54.0 million resulted from the disposal of a single participating interest. This income is offset by a brokerage commission of EUR 4.6 million and EUR 9.0 million in tax charges. The disposals were spread across 37 enterprises (2011: 31).

In the year under review the interest surplus was EUR 177.5 million (2011: EUR 178.2 million).

Income from lendings increased to EUR 209.3 million (2011: EUR 180.3 million) due to a higher volume of loans, a slight increase in average margin, and an interest rate rise in the US dollar region. Other interest and similar income arises mainly from management of DEG's interest rate position by the use of suitable derivatives. In 2012, this resulted in income of EUR 1.5 million (2011: EUR 21.4 million). This income is offset by corresponding interest charges of EUR 9.1 million (2011: EUR 6.0 million) from the closure of derivatives with a negative market value. As in the previous year, the closure of derivatives was carried out to improve the derivatives structure, and it reduced counterparty risks.
If charges from interest hedging transactions are not taken

EUR million	2012	2011
Income from lendings	209.3	180.3
Other interest and similar income	3.0	23.7
of which income from interest hedging transactions	1.5	21.4
Interest charges	-34.7	-25.7
of which charges from interest hedging transactions	-9.1	-6.0
Interest surplus	**177.5**	**178.2**

into account, interest charges rose to EUR 25.6 million (2011: EUR 19.7 million), given a refinancing volume that was up by EUR 204.7 million, and the rise in interest rates affecting the US dollar. Interest charges for the 2012 financial year include EUR 3.7 million (2011: EUR 3.6 million) in costs due to the compounding of interest on provisions.

In the year under review the cost of the net transfer (transfer minus write-back) to provision for risk was EUR 62.6 million (2011: net write-back of EUR 45.4 million). Depending on region, the patchy development of the global economy led to occasionally substantial deterioration affecting many involvements. That is why, in a departure from the two previous years, a net transfer to provision for risk was required.

Individual value adjustments in respect of lendings rose by EUR 17.2 million. The slow-down in economic growth had a particularly strong impact on risk provisioning for involvements in China and India.

Risk provisioning for participating interests saw a net increase of EUR 33.6 million despite many enterprises experiencing a fundamental improvement. The highest allocations were made in respect of involvements in the Russian Federation, Egypt and Brazil. In the previous year, a change designed to improve assessment accuracy had been made to the method used to determine provision for risk, resulting in a positive effect on the net write-back of EUR 27.8 million. The additional across-the-board provision for risk established in 2011 for anticipated, but not yet individually identifiable, burdens resulting from the crisis in the financial markets was wholly written back in the amount of EUR 6.3 million, since these risks have since been reflected in individual value adjustments.

Staff costs rose by EUR 7.2 million in the 2012 financial year. In addition to an increase in wages and salaries (including social security contributions) of EUR 3.5 million, which was due to higher staff numbers and to salary adjustments, there was also an increase in net transfers to provision for pensions and similar obligations of EUR 3.8 million (2011: EUR 0.1 million). In previous years, DEG was able to benefit from a surplus of EUR 4.6 million arising from the changeover to the Accounting Law Modernisation Act (BilMoG).

The distinct increase in other operating charges is mainly influenced by the payment of a brokerage fee of EUR 4.6 million for the disposal of one participating interest.

The profit on ordinary activities fell to EUR 159.9 million (2011: EUR 246.5 million).

Taxes amounted to EUR 31.1 million as per balance sheet, with EUR 33.2 million in current taxes for the 2012 financial year, EUR 9.0 million of which pertained to tax on the profit from the disposal of one participating interest. EUR 2,1 million in income from the write-back of provision for taxes was offset against taxes for the current financial year, since the assessed income tax for the 2011 financial year was lower than the provision made.

In total, the net income for the financial year was EUR 128.8 million (2011: EUR 217.9 million). After withdrawal of EUR 3.5 million (EUR 1.8 million) from the purpose-tied reserve fund for complementary measures, net profit amounted to EUR 132.3 million (EUR 219.7 million),

FINANCIAL POSITION

Disbursements for investments in partner countries for 2012 came to EUR 1,094.5 million in total (2011: EUR 1,079.6 million). Disbursements of EUR 0.9 million were made in trust business (2011: EUR 1.2 million). Accordingly, business on own account amounted to EUR 1,093.6 million (2011: EUR 1,078.94 million).

Business on own account in the year under review was financed in the amount of EUR 734.0 million (2011: EUR 687.2 million) by net cash flow from the disposal of participating interests, loan repayments, and amounts owed from the disposal of investments.

Operating activities during the 2012 financial year accounted for EUR 223.1 million in income (2011: EUR 207.0 million). Non-cash expenses and procurement was made up of the

Financing and funding structure on own account

EUR million	2012
Operating activities before tax	**223.1**
- Operating result before provision for risk	222.5
- Non-cash expenses and procurement	0.6
External funds	**204.7**
- New borrowings	1,567.6
- Repayment	-1,362.9
Investments in partner countries (own account)	**-359.6**
- Disbursements	-1,093.6
- Net cash flow	734.0
Other changes (esp. non-cash foreign currency valuations)	-20.8
Change in liquidity position	**47.4**

procurement of intangible assets as well as property, plant and equipment, their depreciation and the transfer to other provisions (not including provisions for the loan business) and provisions for pensions and similar obligations.

In the year under review, external funds in the amount of EUR 1,567.6 million were newly borrowed from the shareholder KfW (2011: EUR 1,258.5 million). EUR 1,362.9 million in external funds were repaid as scheduled (EUR 1,079.4 million). Amounts owed in respect of financing investment activities rose by EUR 204.7 million gross; however, as a result of foreign currency valuations of EUR -35,2 million, the overall net increase was only EUR 169.5 million.

Other changes of EUR -20,8 million refers mainly to non-cash foreign currency valuations (f.c. valuations) relating to investments (EUR -51.2 million) and the refinancing business (EUR +35.1 million).

Taking into account the withdrawal of EUR 3.5 million from the purpose-tied reserve fund for complementary measures, and the transfer of EUR 132.3 million in net profit for the financial year, own funds increased overall by EUR 128.8 million to EUR 1,829.1 million. The equity ratio (proportion of equity capital to business volume) rose from 39.7% to 40.0% taking the increased volume of refinance into account.

NET WORTH POSITION

Business volume (measured by balance sheet total without trust business) rose to EUR 4,577.4 million, an increase of 6.9% over the previous year.

Investments in partner countries at original cost increased by EUR 282.5 million to EUR 4,587.7 million (+6,6 %) due to disbursements. Accruals of EUR 1,094.3 million in respect of financial commitments compared to disposals, repayments and write-offs of EUR 760.6 million. A further EUR -51,2 million related to accruals and disposals due to foreign currency valuation. After deduction of value adjustments, the increase amounted to EUR 247.2 million (+6.3%) against a backdrop of a slightly disproportional rise in risk provisioning as at balance sheet date.

Participating interests at original cost rose by EUR 128.7 million to EUR 953.8 million (+15,6%). Despite higher value adjustments, and taking into account provision for risk, there was 14,9% growth.

At balance sheet date, DEG held six bonds and notes. One bond relates to the renewed restructuring of a loan to an enterprise.

Amounts owed in respect of the investment business fell by EUR 2.4 million overall. While the amounts owed by borrowers, consisting mainly of dividends and interest due, rose by EUR 2.3 million, accrued interest from swap agreements fell by EUR 4.7 million. Adequate provision for risk was made for identifiable and latent non-payment risks.

Other assets fell by EUR 2.8 million (2011: rise of EUR 3.1 million). This is due to corporate tax payments for the year 2010 (receivables from the tax office of EUR -12.6 million) and the higher balancing item for accountancy purposes relating to foreign currency valuation for the valuation units (EUR +3.4 million), which arises partly from the use of the gross hedge presentation method and partly from hedging with off-balance sheet foreign currency transactions. Amounts owed by consortium partners also rose (EUR +6.5 million).

In total, liquid funds (including bonds and notes) rose by EUR 47.4 million to EUR 164.4 million (2011: EUR 117.0 million). Bonds and notes under current assets fell as a result of the disposal of a bond in the amount of EUR 1.1 million previously held as liquidity reserve.

FOLLOW-UP REPORT

No significant events of special importance to profitability, financial or net worth position occurred after the end of the financial year.

RISK REPORT

Risk policy

In addition to applying the risk principles in force throughout the corporation, DEG has committed itself to maintaining the standards of the Bank Supervision Act, in particular the minimum requirements for risk management (MaRisk), and to complying with these in its business operations.

DEG's portfolio reflects its development and promotional policy mandate. It is largely made up of countries and addresses with a structurally higher risk. DEG actively controls risk, especially in those market and commercial divisions which, as a result of their business activities, are not merely responsible for risks and earnings, but also for clients and products.

The back office is responsible for risk controlling, credit management and transaction management; at institutional level, it undertakes the following tasks:

- identification of major risk types
- analysis and portfolio-specific risk control by defining risk strategy, setting risk budgets, limits and barriers
- determination of provision for risk
- monitoring and reporting of risks

Key types of risk are identified by an annual risk inventory. In addition to the risk types credit risk, market price risk and operational risk, the 2012 risk inventory newly identified market liquidity risk as significant for DEG.

As part of DEG's strategy process, risk strategy is set according to the main risks resulting from the institution's business strategy. It includes risk management targets for key business activities and lists measures to achieve each risk target. It includes fundamental statements on risk appetite and risk capacity, taking risk and income concentrations into account, and sets the general conditions for operational risk management. The risk strategy highlights the planned long-term approach by which the defined risk targets are to be met. It is the result of strategic planning and covers a medium-term planning period. Steps have been taken to ensure that DEG's risk strategy and the risk control measures derived from it are consistently embedded in, and in tune with, KfW's corporate risk strategy.

The risk strategy is implemented by means of control processes and instruments designed for the purpose, e.g. via a second opinion or by limit management. Monitoring is carried out monthly, mainly in the course of risk reporting. Where deviations from the risk strategy occur, the reasons are analysed and commented on, and if appropriate, recommendations for action are derived and measures decided on.

Income and risk concentrations are regularly analysed and discussed by in-house bodies. If necessary, additional measures in keeping with the above-mentioned guidelines are devised (e.g. in connection with new business). The Audit Committee and the Supervisory Board are updated on DEG's current risk situation by the quarterly report.

Key risk strategy goals for DEG are: to secure the economic solvency level (economic risk capacity) laid down (at a corporate level) and to maintain regulatory risk capacity based on the equity capital rules set by the supervisory authority, with which DEG complies voluntarily. The divisions of DEG involved with taxes decide on whether risks are accepted, reduced, limited, avoided or transferred, while taking account of any risk limits and qualitative requirements specified in the risk strategy.

The Risk Management Committee (RMC) and the Asset/Liability Committee (ALC), which both convene monthly, are the main bodies which discuss topics relevant to risk and take decisions. The ALC discusses matters relating to market price and liquidity risks, while the RMC is concerned with situations relating to credit and operational risks (OpRisk); both address measurement, reporting and management of these risks. In addition, the RMC is responsible for general issues such as risk strategy, risk capacity, stress testing and the introduction and/or evaluation of new products. Any topics requiring a decision by the Management Board are discussed by these bodies and presented at a Management Board meeting.

DEG also has an Equity Risk Committee (ERC) and a Credit Risk Committee (CRC). The Equity Risk Committee (ERC) is an advisory and coordination body; its aim is the early identification of movements in the market and cross-divisional risk control in DEG's equity portfolio. The aim of the CRC, also an advisory and coordination body, is the early identification of increased risks in DEG's loans portfolio; it also monitors compliance with any close supervision and discusses existing and potential payment delays.

DEG is represented in the corporate bodies that deal with risk management at KfW and hence integrated into in the group's coordination processes.

Risk capacity

DEG's risk capacity is determined and monitored under both economic and regulatory aspects (monthly and quarterly respectively). For both, minimum equity capital requirements are laid down and must be observed. This ensures that DEG's risk capacity is maintained even under stress conditions (going concern) at the defined solvency level and in regulatory terms.

Section 10 of the Banking Act of the Federal Republic of Germany (KWG) defines regulatory risk coverage as the core capital (paid-up share capital plus reserves, taking deductible items into account). Supplementary funds or tier 3 capital are not available to DEG. Equity capital is determined based on the approved annual statements of accounts. As at the reporting date of 31 Dec. 2012, the as yet unapproved profit for the financial year was already taken into account in risk coverage.

In calculating economic risk capacity, finance is economically assessed like all the other positions, without deduction of deductible items as per regulatory risk coverage, in other words, the economic capital requirement is determined and compared to risk coverage rather than being deducted from the equity capital. So the difference between regulatory and economic risk coverage lies in these positions.

The economic capital required for credit risks is calculated by using a credit portfolio model (Internal Ratings Based Approach (IRBA) formula as per SolvV). In this model, the level of economic capital depends on individual borrower' ratings and product-related loss ratios.

Market price risks (interest rate and currency risks) are measured and controlled both in terms of present value and using value at risk (VaR) methods. For operational risks, individual types of earnings in defined fields of business are weighted with special risk factors as required by the supervisory authority BaFin in the standard approach under Basel II rules.

As at 31 Dec. 2012, the economic capital requirement shown in the economic risk capacity calculation was distributed across the three types of risk of significance to DEG: address non-payment risk (EUR 918 million), market price risk (EUR 268 million) and operational risk (EUR 43 million).

Stress tests

In addition to applying these methods, DEG also regularly carries out stress tests with a view to:
- presenting the assessment of the impact on risk capacity of a potentially adverse economic climate
- identifying potentially significant risks and risk concentrations
- representing suitable scenarios and the effects on risk capacity.

In devising stress test scenarios, DEG uses results from the measurement of risk concentrations and from its early warning system. These scenarios include
- going concern and gone concern scenarios that apply to the corporation as a whole,
- scenarios specific to DEG which include historic and hypothetical events, and
- reverse stress tests.

The assumption is made that risk factors are being affected by improbable, but plausible changes and shocks. DEG carries out quarterly stress tests for address non-payment risks, market price risks and operational risks. For both general and scenario stress tests, potential losses are calculated, the development of economic capital is simulated and the impacts on risk capacity represented and analysed. This includes impacts on the Profit and Loss Account (P & L) as a result of non-payment and rating migrations.

The selection of scenarios and their results are discussed quarterly by the Risk Management Committee with Management Board involvement. These results are used to assess risk capacity as at the reporting date and for a going-concern outlook. They are also taken into account in medium to long-term planning.

The analysis of risk capacity under stress conditions showed that that the risks undertaken by DEG were tenable at all times, both on the effective date of 31 Dec. 2012 and throughout the year.

Types of risk

The following paragraphs examine DEG's business activities in relation to relevant types of risk.

Credit risk

Credit risk (in the wider sense) includes the risk of a possible deterioration of creditworthiness, with default of the contractual partner as a special case. Credit risk is subdivided according to the product groups affected. with loans and participating interests coming under credit risk (in the stricter sense), bonds and notes falling under issuer risk, and derivatives under counterparty risk, which includes replacement risk. Country risk (including transfer risk) is also subsumed under credit risk.

As the breakdown of commitment obligation by region (viewed by risk country) and by sectors shows, DEG's risk policy positioning creates certain concentrations in its portfolio. The distribution by region is not critical as regards risk. Distribution by sector shows higher volumes in the financial and manufacturing industries. DEG fulfils its development policy mandate indirectly in the real economy with the help of banks, leasing companies and funds, DEG fulfils its development policy mandate indirectly in the real economy with the help of banks, leasing companies and funds. Financial institutions operate as intermediaries by providing capital to small and medium-sized enterprises in particular, which generally have difficulty in gaining access to capital markets. The commitment obligation to the financial industry is broadly diversified both by region and sub-sectors. Moreover, the financial sectors in our partner countries are comparatively poorly integrated into the international financial markets. In manufacturing, the commitment obligation is spread across 20 sub-sectors, so it is also well diversified.

Because DEG's business model is influenced by development policy, its portfolio mix – as regards country and credit risk classes – displays a concentration of medium and high default risk, which is to be expected.

Limits have been defined for individual addresses, countries, borrower units, industries and regions. Beyond that, DEG is integrated into KfW's corporate system of limits. Existing limits must be observed, whether set by DEG or by the group. The limits for country and credit risks are also linked to DEG's equity capital and are expressed as percentages of equity capital based on the rating. The Management Board is immediately notified of any breach of the limits. Breaches of the limits are detailed in the risk report.

Apart from occasional passive breaches, the limits defined for both individual involvements and countries as well as at portfolio level were observed. Three passive breaches of the address limit remained as at 31 Dec. 2012. These passive breaches (due to ratings downgrades or foreign exchange rate movements) were immediately reported to the executives responsible and analysed. On that basis, appropriate policy options were devised and measures implemented.

Over the year, acute risks in countries and sectors are additionally limited based on risk barriers prescribed by the group; these use a traffic-light system to monitor and control transactions in the markets affected.

For most of its business, DEG not only uses its own in-house rating methods, but also corporate credit ratings for banks, corporates and countries (for transfer/conversion risks) and for equity funds, the latter newly added in 2012. These rating methods meet the qualitative criteria of the German Solvency Regulation (IRBA).

Regional distribution of industries by commitment obligation

Share of portfolio (commitment obligation as at 31 Dec. 2012)	Africa	Asia	Europe/ Caucasus	Latin America	Total	Prev. year 31 Dec. 2011
Financial institutions	8.3%	11.4%	12.8%	11.5%	**44.0%**	42.7%
Manufacturing	2.8%	9.7%	5.6%	4.7%	**22.8%**	25.3%
Energy & water supply	2.1%	3.2%	0.6%	5.3%	**11.3%**	10.0%
Transport, telecommunications, infrastructure	2.4%	2.6%	2.2%	1.0%	**8.3%**	9.6%
Other services, tourism	1.1%	0.7%	4.7%	2.4%	**8.9%**	8.4%
Agriculture, forestry, fisheries	1.0%	1.2%	0.9%	1.0%	**4.1%**	3.2%
Mining, quarrying, non-metallic minerals	0.4%	0.2%	0.0%	0.1%	**0.7%**	0.7%
Total	**18.1%**	**29.1%**	**26.9%**	**26.0%**	**100%**	-
Prev. year, 31 Dec. 2011	17.8%	31.3%	27.0%	23.9%	-	100%

The loan portfolio is monitored monthly for interest or redemption payments in arrears for more than 90 days. In addition, the loan portfolio is analysed and monitored for arrears of between 30 and 90 days to extrapolate possible early warning indicators. Non-performing obligations (commitment obligations with an M19 or M20 rating) as at 31 Dec. 2012 amounted to EUR 397 million. Arrears of over 90 days and in excess of EUR 10,000 came to EUR 43 million.

The need for individual value adjustments in business on own account, depreciations in trust business for the German government, or the need for individual provisions for probable losses from guarantees and for pledging of participating interests are determined at regular intervals or, if necessary, immediately after any depreciation has been identified, using the available assessment tools to measure the provision for risk required in individual cases. For latent risks, provision is made in the shape of a portfolio value adjustment based on the expected loss.

For all involvements, a ratings review is carried out at regular intervals or if early warning indicators are present. For an M16 rating or below, close supervision is introduced; this includes more intensive support for the involvement and measures designed to safeguard any assets. Where serious disruptions have occurred, e.g. persistent default, the well-founded suspicion of criminal conduct on the part of borrowers, or other circumstances suggesting a risk that the contract will not be fulfilled by the partners, the involvement is transferred to problem management. As required by the regulator, this is carried out by specialist staff and is designed to stabilise or wind up the involvement while not necessarily winding up the enterprise. The department responsible reports at least once a quarter on the development of troubled involvements and any insights gained.

Market price risks

DEG does not operate as a trading book institution as per the Banking Act of the Federal Republic of Germany (KWG) or under its own in-house definition, in other words, there is no trading on own account for the purpose of generating short-term income. So market price risks are confined to the asset book. Key types of market price risk in DEG's case are interest rate risks and currency risks.

Interest rate risk is the risk of losses due to a change in interest rate ratio unfavourable to DEG. In relation to DEG's finance business, interest rate risk refers to the potential loss that may result if a commitment made to a client on particular terms is re-financed at a later date at higher interest or on terms mismatched in some other way (period, yield). By entering into a limited exposure to open interest rate risk positions, DEG generates income from maturity transformations. The strategic interest rate risk position is determined based on the budget and the fixed interest rates in the lending and borrowing business.

Currency risk is the risk of losses as a result of exchange rate movements unfavourable to DEG. It is only indirectly affected by foreign exchange risks (FX risks) in the context of its loan and equity participation business and its refinancing business. DEG is exposed to exchange rate risks as a result of fulfilling its development mandate; these are hedged where possible and where appropriate in respect of P&L. DEG avoids volatility driven by exchange rates in its Profit and Loss Account by establishing valuation units in its loans business wherever possible and appropriate. Both macro valuation units (especially for USD positions) and, in individual cases, micro valuation units are used for the purpose.

DEG measures interest rate and currency risks based on the economic capital concept. The economic capital requirement is made up of a stop-loss buffer for the cumulative present value losses over a year, and the possible present value loss that may additionally occur when a position is closed (value at risk VaR). Value at risk is the maximum loss that will, with 99.9% probability, not be exceeded if a position is held for a certain length of time. The sensitivity of the portfolio to interest rate changes is also measured (Delta Present Value of a Basis Point, DPVBP).

Commitment obligation in the finance business by credit and country risk classes

Country- or credit risk classes on the M scale	Default risk	Commitment obligation at 31 Dec. 2012			
		Country risk		Credit risk	
		EUR thousand	per cent	EUR thousand	per cent
M1 to M8	Investment Grade	3.271,734	56%	376,764	6%
M9 to M15	Speculative Grade	2.132,428	36%	4.564,446	77%
M16 to M18	Close supervision	487,799	8%	553,452	9%
M19 & M20	Default	0	0%	397,299	7%
Total		**5.891,961**	**100%**	**5.891,961**	**100%**

To examine the effects of extraordinary market fluctuations on the current portfolio, daily scenario calculations are carried out for present values. These take account of regulatory requirements, e.g. consideration of an interest rate shift of +/-200 bp across all currencies simultaneously. The simulations apply to all the positions in DEG's asset book. The effects on present value of a change in exchange rates unfavourable to DEG are also considered.

Operationally, the framework for risk management is established by limits which are set based on risk control using net present values. Day-to-day risk management is carried out on the basis of daily scenario calculations. In addition, end-of-month levels are limited via a budget for the economic capital committed. DEG issues a daily risk report, ensuring that the Management Board is always kept informed. This is supplemented by monthly reports and a previously introduced ad-hoc reporting system in case limits are breached.

Economic capital for interest rate risks was EUR 100 million as at 31 Dec. 2012. EUR 168 million in economic capital is allocated for currency risks.

Liquidity risk

The liquidity risk can be subdivided into two variants, institutional liquidity risk, and market liquidity risk. Institutional liquidity risk is the danger that DEG may not be able to meet its financial obligations at all, or not on time or in full (including withdrawal risk and maturity risk). This insolvency risk on the part of DEG is significantly limited by the existing refinance commitment by KfW, which assures DEG of access to liquidity via KfW. So any insolvency risk on DEG's part is directly linked to the group's liquidity risk. The risk of the banking group's insolvency at any time is measured and controlled by KfW. In addition, DEG also independently measures and manages its own liquidity. Ultimately, DEG is only exposed to liquidity risk in the stricter sense to a very minor degree. Moreover, DEG has no liquidity portfolio of its own, so that the extent to which assets can be liquidated is of no importance.

Market liquidity risk is the danger of losses if DEG is unable, due to insufficient liquidity in the market, to trade assets or financing funds at all, in a timely manner, fully or in sufficient number, or at fair market conditions. In DEG's case, this only applies to liabilities. Here, the risk is that refinance could only be obtained at a higher price via KfW, and this higher price could not be passed on to the clients or could only be passed on in part. This risk is measured using stress testing. Results to date show that the impact on DEG's profitability, financial position or net worth position would be fairly minor. Despite the trivial effects, market liquidity risk was rated as significant in the risk inventory for 2012 with effect from 28 Dec. 2012 due to the potential liquidity requirements.

The risk is countered by secure liquidity provision at an appropriate level, by careful management and planning of payment flows from the financing business and from refinancing, and by short and medium-term liquidity planning. Liquidity risks are limited by an indicator to secure minimum liquidity. As at the balance-sheet date, this was 10% of non-disbursed commitments. This safeguards one month's disbursements during normal business operations. If DEG falls short of the liquidity limit, the Management Board is immediately informed.

Operational risks

Operational risks are defined as the danger of losses occurring due to shortcomings or failures of internal processes, personnel or systems, or because of external events. This definition includes legal risks, but excludes strategic risks.

Any losses above a minimum level of EUR 5,000 are recorded in an OpRisk events database. In addition, operational risks are systematically recorded in annual risk assessments. In the context of the risk assessments, operational risks are measured on the basis of expert appraisals supported by data. In DEG's case, potential for losses exists mainly due to fraud in relation to the funds employed, to documents and/or bonds & notes, and to payment transactions.

In cases where unavoidable internal or external events occur, Business Continuity Management (BCM) describes a holistic management process that involves all aspects required to carry out critical business processes and reduce losses. BCM takes account of both preventative and reactive components (contingency planning and emergency & disaster recovery respectively).

Operational risks in the field of data processing are much lower by comparison with commercial banks, but still need to be recorded and assessed. The operational processes for IT are defined based on ITIL standards and are regularly monitored as part of the Internal Control System (ICS) and audited at least once a year. IT strategy is in line with DEG's corporate strategy. It is updated annually and approved by the Management Board. DEG has a backup computer centre at its disposal. For insurable risks (e.g. fire or water damage), DEG has comprehensive insurance cover.

The risk of failing to meet long-term corporate goals based on underlying business assumptions and forecasts is dealt with by continuously bringing new business and the portfolio into line with DEG's corporate policy development mandate, as well as by monitoring market conditions and conditions governing competition. Strategies and financial planning are devised using a systematic multi-year planning process, and the resulting investments and measures are regularly reviewed along with the portfolio mix.

Reputational risks are dealt with by carefully selecting, managing and supervising involvements through the use of the Corporate Policy Project Rating, by performing money laundering checks, maintaining representative offices, carrying out on-going training, and exchanging ideas. In this context, special attention is paid to identifying and controlling any risks associated with the finance business that are caused by failing to meet environmental and social standards.

Operational risks in the human resources field are dealt with mainly through organisational arrangements such as the two pairs of eyes principle, allocation of roles and responsibilities, and IT-based controls, as well as by ensuring that members of staff have the required level of qualification. The careful selection of qualified experts and on-going training measures ensure that DEG can be confident in the judgements made when the quality of finance is assessed or board mandates are exercised. Job descriptions, including specification of tasks and competencies, are defined in keeping with MaRisk requirements.

Legal risks play a comparatively important role for DEG, since its business operations extend across many countries with a variety of different legal systems and ways of applying the law. The aim is to rule out risks to DEG's legal positions as far as possible by reviewing the formal and actual legal framework in investment countries. DEG employs its own qualified staff in its legal department, which is closely involved at an early stage in arranging involvements and in contract negotiations, and brings in external experts as necessary, whether in Germany or in other countries.

The Internal Control System (ICS)

DEG defines its Internal Control System as all the principles, processes and measures introduced into the business by the management which are directed towards securing:

- the effectiveness and profitability of business operations,
- the compliance and reliability of internal and external financial reporting,
- fulfilment of any legal requirements that apply to DEG, fulfilment of the mandate to benefit the public good as per the Articles of Association, and
- protection of the assets and the substance of DEG's financial situation and profitability

Drawing on KfW's ICS system, DEG has formulated its own guidelines that describe the aim, structure and components of its ICS. These principles establish the quality requirements and measures DEG applies in implementing its goals and identifying, assessing and reducing risks. ICS design and implementation are the responsibility of the Management Board and those senior DEG executives who have strategic and operational responsibility for the process. The ICS extends to all business units, including representative offices, and applies to all corporate functions and processes.

Processes at DEG have been established in accordance with the principles of the separation of functions. Process descriptions and work instructions include an account of these processes and the way competencies and responsibility are assigned. They are updated if any change occurs and regularly reviewed.

The ICS is made up of the internal management system that includes all the regulations designed to manage corporate activities, and the internal monitoring system intended to ensure the effectiveness of, and compliance with, these regulations. The implementation of the annual business and risk strategy is regularly monitored in the context of the internal management system, and reports are submitted to the appropriate bodies.

The in-house monitoring system includes measures integrated into the processes, and others that are independent of them. To carry out process-integrated monitoring, the risks inherent in operational processes are identified and corresponding checkpoints set up within the processes. In 2012, DEG introduced a regular review of the function and effectiveness of the controls as defined in order to verify the appropriateness and effectiveness of its ICS or highlight possible weak points. An annual report is submitted to the Supervisory Board and complements existing risk reporting.

During the function and effectiveness review for 2012, 125 key controls for risk classes II (processes carrying medium risk) to IV (high risk processes) were subject to testing. Based on this review, and taking into account the basic process landscape, the risk classification of individual processes, the analysis of the control points and the related function and effectiveness tests applied to the control points (ICS testing), DEG's ICS was judged to be fundamentally effective.

OUTLOOK

The global economy is expected to pick up towards the latter months of 2013, and a further improvement is anticipated for the following years. The forecasts are based partly on the growing economic performance of emerging market and developing countries, which are gaining in importance in a global context. The industrialised nations are expected to return to moderate growth provided debt reduction, consolidation and modernisation processes prove successful.

Some uncertainties remain: downside risks may result if the consolidation phase in the industrialised nations is more extensive and continues for longer than expected. The adjustment of growth models in major emerging market countries facing structural challenges is also important for the future development of the world economy. A significant drop in economic performance might reduce the willingness to invest even in developing countries. On the other hand, opportunities for DEG's development business may well arise if the range of finance available to enterprises willing to invest is reduced even more in these countries due to increased risks.

There are political challenges in light of the unstable situation in North Africa and the intensifying conflicts in the Middle East, in Mali and Central Africa. As matters stand now, taking into account applications for finance already received, DEG's business activities are not expected to be significantly affected.

Under current plans, DEG expects the volume of new commitments to reach EUR 1.4 billion in 2013. It became clear at 2012 year end that its finance remains in demand, given the applications for finance received, from which new business derives. At EUR 1.8 billion, the volume of applications had continued to grow compared to the value at 2011 year end (EUR 1.6 billion). The volume of finance already agreed in house but not yet contractually finalised was approx. EUR 0.5 billion at 2012 year end, the same as the year before.

DEG plans to grow both qualitatively and quantitatively over the coming years. The analysis of markets in its 2012 strategic review showed continuing positive and additional business potential. In several partner countries, general conditions for private sector entrepreneurial initiative are improving. New future markets are emerging that are especially important in terms of development policy. In more developed emerging market countries, the need for investment remains very high. Finance for small and medium-sized enterprises and risk capital are in particularly high demand.

DEG's business strategy for 2013 to 2017 defines five main areas that reflect these trends. DEG's involvement as a provider of risk capital and in promoting medium-size businesses is to be further expanded. Three strategic goals rest on this strategic foundation. As a pioneer investor, DEG intends to strengthen its involvement in Africa further and open up more future markets; in climate and environmental protection, it is expanding its leading role among European development finance providers; as a partner to German enterprises, it will further force the pace of financing and supporting their investments in developing and emerging market countries. The outlook is for new business volume to grow by 10% annually on average, with the portfolio (commitment obligation) achieving approx. 7% growth per year on average.

Against this backdrop, DEG expects a continuing stable development of its income. It anticipates a rise in its operating income; the main sources of income remain the interest surplus from the loans business and income from participating interests. Staff costs and operating charges will rise further in 2013 as a result of investing in DEG's strategic alignment, whereas from 2014 onwards, the increase is expected to be moderate. After provision for risk, the profit for the 2013 financial year is expected to be EUR 100 million after tax. With conservative planning for risk provisioning (standard risk costs) the sum is expected to be reduced by a quarter in 2014.

DEG continues to aim for a pre-tax return on equity of 6% on a three-year average, a challenging goal for a development institution with a high equity ratio. It must be noted that DEG's financial success is significantly affected by provisions for risk and by volatile income from participating interests, which depends on external market conditions.

The sustainable fulfilment of its development and business policy mandate, risk-appropriate portfolio management and forward-thinking cost and income management will remain key control parameters. With the system of strategic goals for the next five years it developed in 2012, DEG has established a context which will allow its development activities to evolve in ways that are both sustainable and fit for the future.

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BALANCE SHEET

PROFIT AND LOSS ACCOUNT

APPENDIX

BALANCE SHEET AT 31 DECEMBER 2011

With previous year's figures for comparison

ASSETS			31 Dec. 2012	31 Dec. 2011
A. Fixed assets	EUR	EUR	EUR	EUR thousand
I. Intangible assets				
1. Industrial property rights and similar rights and assets, including licences on such rights and assets			264,383	390
2. Payments in advance			994,161	0
			1,258,544	390
II. Tangible assets				
1. Land and buildings		49,403,241		47,458
2. Office equipment		3,432,875		3,750
3. Payments in advance		194,035		174
			53,030,151	51,382
III. Financial fixed assets				
1. Investments in partner countries				
a) Participating interests	792,252,418			689,723
b) Loans to undertakings in which DEG has a participating interest	187,586,930			184,414
c) Other loans	3,200,761,487			3,059,298
		4,180,600,835		3,933,435
2. Other financial fixed assets				
a) Bonds and notes under current fixed assets	90,719,373			91,126
b) Other loans	667,650			732
		91,387,023		91,858
			4,271,987,858	4,025,293
Total A. (I.+ II.+III.)			4,326,276,553	4,077,065
B. Current assets				
I. Debtors and other assets				
1. Amounts owed from investment activities		56,786,372		59,182
of which amounts owed by undertakings in which DEG has a participating interest		5,003,333		3,387
2. Amounts owed from disposal of investments		3,681,319		947
3. Amounts owed from consultancy and other services		337,237		50
4. Other assets		25,747,554		28,560
			86,552,482	88,739
II. Bonds and notes			1,101,189	5,056
III. Cash in hand, balances with Deutsche Bundesbank and with credit institutions			163,305,766	111,965
Total B. (I.+ II.+III.)			250,959,437	205,760
C. Accruals and deferrals			175,865	520
D. Assets held under trust			76,326,018	85,469
Total assets			**4,653,737,873**	**4,368,814**

LIABILITIES			31 Dec. 2012	31 Dec. 2011
A. Shareholders' equity	**EUR**	**EUR**	**EUR**	**EUR thousand**
I. Subscribed capital				
1. Subscribed capital			750,000,000	750,000
2. Subscribed capital unpaid			-122,147,630	-122,148
Called up capital			627,852,370	627,852
II. Appropriated surplus				
1. Purpose-tied reserve fund				
as at 1 January	13,450,000			5,250
Transfer from net income for previous year	10,000,000			10,000
Withdrawal reserve fund	-3,450,000			-1,800
as at 31 December		20,000,000		13,450
2. Other appropriated surplus				
as at 1 January	839,285,298			579,745
Transfer from net income for previous year	209,700,000			259,540
as at 31 December		1,048,985,298		839,285
			1,068,985,298	852,735
III. Net profit			132,310,000	219,700
Total A. (I. + II. + III.)			1,829,147,668	1,700,287
B. Provisions for liabilities and charges				
1. Provisions for pensions and similar obligations		75,032,403		70,677
2. Provisions for taxation		6,150,000		13,420
3. Other provisions		33,883,666		31,459
Total B. (1. + 2. + 3.)			115,066,069	115,556
C. Creditors				
1. Amounts owed for financing investment activities		2,585,222,309		2,418,434
2. Trade creditors		1,352,292		773
3. Other creditors		46,623,517		48,295
of which tax payable		7,122,043		819
of which social security		109		0
Total C. (1. + 2. + 3.)			2,633,198,118	2,467,502
D. Liabilities for assets held under trust			76,326,018	85,469
Total liabilities			**4,653,737,873**	**4,368,814**
Contingent liabilities arising from the provision of collateral in favour of third parties			6,942,212	4,969

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2012

With previous year's figures for comparison

INCOME	1 Jan.-31 Dec. 2012 EUR		1 Jan.-31 Dec. 2011 EUR thousand
1. Income from participating interests		26,826,829	18,756
2. Income from long-term loans		209,267,557	180,273
of which from affiliated enterprises		2,802,718	2,150
3. Other interest receivable and similar income		2,975,564	23,739
of which from affiliated enterprises		167,523	20,243
4. Income from write-ups and write back of provisions in respect of lending business and participating interests			
a) Write-up of financial fixed assets	78,633,160		238,254
b) Write-up of amounts owed from project activities and from disposal of investments	1,257,533		2,483
c) Write back of provisions in respect of lending business and participating interests	735,000		3,624
		80,625,693	244,361
5. Other operating income			
a) from disposal of participating interests		87,523,049	66,599
b) from consultancy services		4,394,197	4,423
c) from trust transactions		663,363	660
d) from other services		8,562,281	5,994
e) other		26,106,210	20,408
		127,249,100	98,084
Total income		**446,944,743**	**565,213**

CHARGES	1 Jan.-31 Dec. 2012 EUR		1 Jan.-31 Dec. 2011 EUR thousand
6. Depreciation, value adjustments and provisions in respect of lending business and participating interests			
a) Depreciation and value adjustments in respect of financial fixed assets	133,896,342		191,201
b) Depreciation and value adjustments in respect of amounts owed from project activities and disposal of investments	4,994,629		1,575
c) Provisions in respect of lending business and participating interests	4,302,000		6,141
		143,192,971	198,918
7. Interest payable and similar charges		34,707,353	25,708
of which to affiliated enterprises		19,887,626	14,869
8. Staff costs			
a) Wages and salaries		42,101,839	38,988
b) Social security, pensions and other benefits		10,639,656	6,538
of which pensions		5,281,378	1,560
		52,741,495	45,526
9. Depreciation and adjustments for impairment of tangible assets		2,978,414	2,914
10. Other operating charges		53,415,686	45,667
Total (6.+7.+8.+9.+10.)		**287,035,919**	**318,733**
11. Profit on ordinary activities		159,908,824	246,480
12. Tax on income and profit		31,040,312	28,572
13. Other taxes		8,512	8
14. Profit for the financial year		128,860,000	217,900
15. Withdrawal purpose-tied reserve fund		3,450,000	1,800
16. Net profit		**132,310,000**	**219,700**

APPENDIX FOR THE 2012 FINANCIAL YEAR

GENERAL NOTES ON THE STATEMENTS OF ANNUAL ACCOUNTS

Form of Annual Accounts

The Balance Sheet and Profit and Loss Account were laid out in compliance with the provisions for large corporations in Articles 266 & 275 of the German Commercial Code (HGB).

Due to business conducted, the items in the Balance Sheet and the Profit and Loss Account have been supplemented or re-designated in accordance with Article 265 of the German Commercial Code (HGB). Itemisation in the Profit and Loss Account is based on income from participating interests.

In accordance with the provisions of the German Commercial Code and clarification by Article 1 of the Ordinance Regulating the Presentation of Accounts by Credit Institutions, DEG is exempt from the provisions on financial statement forms.

Accounting/valuation criteria

Intangible and tangible assets acquired for a consideration are activated at original costs and subject to straight-line depreciation across their average useful life.

The choice to activate internally produced intangible assets under current fixed assets according to the provisions of HGB Article 248 Paragraph 2 was not exercised.

The choice under Article 67 Section 4 Clause 1 of the Introductory Act to the Commercial Code (EGHGB), according to which lower valuations of assets based on depreciation under HGB Article 254 (version in force until 28 May 2009) may be retained, is exercised for the building in respect of the one-off tax depreciation from the transfer of silent reserves as per Article 6b of German Income Tax Law (EstG).

Low value assets are dealt with in accordance with Article 6, Section 2 of German Income Tax Law, i.e. where the value is less than EUR 410, they are recorded under other operating charges. A compound item remains from the use of the pooling system provided for in Article 6, Section 2a of German Income Tax Law for the 2009 financial year; this will be written back for the last time and hence fully in the next financial year.

Financial fixed assets are recognised at original cost or at fair value if lower.

To take account of address risk, DEG carries out risk provisioning for both identifiable and latent default risks in its financing portfolio. The value adjustments are set off in the respective asset items. For guarantees issued by DEG in respect of its finance business, provisions are made in the case of identifiable and latent risks that a claim will be made.

The value of a participating interest is generally determined using the Discounted Cash Flow (DCF) method. Call and put options with sponsors are considered when establishing the value of a participating interest.

Where market prices, e.g. stock market quotations, are available, DEG will verify whether, following a critical review of the assumptions underlying the valuation and pricing, the stock market price represents an appropriate valuation and should replace the discounted cash flow method. If the participating interest was acquired less than a year earlier, DEG will generally fall back on the purchase price. However, if after acquiring the participating interest, DEG becomes aware of important factors affecting the value which did not enter into the determination of the purchase price, the DCF method is used to determine the purchase price, taking the new findings into account. This applies even during the first year after the participating interest was acquired. If a firm offer has been made to purchase the participating interest, the proposed purchase price replaces the DCF method as the basis for assessing the value of the participating interest. For participating interests, country risks are taken into account by an upward adjustment of the discount factors. If the value of the participating interest as described above is lower than the purchase price or the lower book value, a corresponding value adjustment is made.

In the case of loans, the address non-payment risk of an involvement is initially identified by using trigger events to make a first assessment of whether provision for risk is generally required. If a trigger event has taken place, the level of provision for risk is estimated based on the present value of expected future repayments on the loan in question.

For latent default risks, DEG continues to make a portfolio value adjustment for loans without an individual value adjustment. Depending on the rating, the portfolio value adjustment is calculated based on the standard risk cost approach and takes into account both address non-payment risks and country risks. In the past, DEG also supplemented the portfolio value adjustment by adding a surcharge for special potential hazards in individual sectors and countries. This surcharge was written back in 2012, since the risks were already adequately covered by individual and portfolio value adjustments. The write-back amounted to EUR 6.3 million as at 31 Dec. 2012.

Guarantees issued by DEG in respect of its finance business now also take account of latent non-payment risks as per the method described above.

Amounts owed and other assets are recognised at their nominal value. Actual default risks are catered for by value adjustments.

Assets that are exempt from creditor access and serve only to settle debts from pension liabilities under the deferred compensation scheme were offset against those debts in the sum of EUR 0.9 million as at balance sheet date, as provided for by Article 246 Section 2 Clause 2 of the German Commercial Code. Both the original costs and the fair value of the assets are EUR 0.9 million respectively as at 31 Dec. 2012. The offset debts were discounted at the market interest rate (5.05%) published by Deutsche Bundesbank in November 2012, which results from an assumed residual maturity of 15 years. Charges and income of EUR 28 thousand were offset.

Other bonds and notes under current assets are recognised at original cost, applying the strict lowest value principle and observing the value appreciation requirement.

Provisions for pensions and similar obligations are calculated at their going-concern value using the Mortality Tables 2005 G (Richttafeln 2005 G) published by Dr. Klaus Heubeck.

Other provisions were made at the level of anticipated demand and take all actual risks and liabilities of uncertain cost into account. Any provisions with a residual term of more than one year were discounted in accordance with their residual terms at the average market rate across the past seven years published by Deutsche Bundesbank.

Amounts owed are recorded as liabilities with repayment amounts.

Deferred tax liabilities were offset against deferred tax assets. The choice not to activate deferred tax liabilities that exceed deferred tax assets was exercised under the provisions of Article 274 Section 1 Clause 2 of the German Commercial Code.

At the time of acquisition, all assets and debts are converted into Euros at the rate of exchange current at the time of purchase.

For participating interests, currency changes are directly taken into account in the context of calculating provision for risk. A small number of loans not hedged in foreign currency are valued at the mean rate of exchange at the balance sheet date, taking original cost into account as the upper value limit. Overnight and time-deposits and balances with banks are valued at the mean rate of exchange at the balance sheet date.

Other assets, debts and pending foreign currency transactions are summarised in valuation units pursuant to Article 254 of the German Commercial Code. Along with one macro valuation unit for assets, debts and pending transactions in USD, additional micro valuation units were established for the other foreign currencies (RUB, MXN, ZAR). The foreign currency valuation units are reported in the balance sheet using the gross hedge presentation method.

In accordance with DEG's risk strategy, currency risks are hedged against contrary changes in value in foreign currency cash flows from loans and bonds and notes under current fixed assets, matching currency refinance or pending foreign currency transactions. For the macro valuation unit in USD, all on-balance-sheet activities in USD (lending/deposit activities) are considered jointly; the resulting (net) currency risk remaining is hedged with appropriate derivatives transactions. For the micro valuation units, the currency risks resulting from individual basic transactions are hedged with individual hedging instruments. Currency risks are further limited depending on currency. The future effectiveness of the hedging relationship can therefore be assumed.

The macro valuation unit in USD comprises basic transactions in the form of loans in foreign currency with a book value after deduction of individual value adjustments of EUR 2,499.3 million, bonds and notes under current fixed assets of EUR 21.6 million, and liabilities for the purpose of financing the investment business (borrowers' notes and overnight loans) of EUR 1,709.8 million. The level of remaining (net) currency risks that required hedging was EUR 811.1 million as at 31 Dec. 2012. This net position was hedged with off-balance sheet transactions (interest rate swaps and forward exchange deals) in the sum of EUR 686.3 million.

The micro valuation units comprise basic transactions in the form of loans in foreign currency (without deduction of individual value adjustments) of EUR 126.5 million, which were hedged with off-balance sheet transactions (interest rate swaps) in the same amount.

At balance sheet date, the market value of the basic transactions summarised in the macro valuation unit was EUR 2.2 million. Hedging transactions with a positive market value of EUR 6.1 million at balance sheet date were used to hedge the currency risk. The market values were determined using the dollar-offset method.

At the effective date of 31 Dec. 2012, DEG carried out a calculation using the present value method, as per the IDW RS BFA 3 principles issued by the German Institute of Certified Public Accountants, whereby provision for contingent losses must only be made if the book value of the banking book exceeds its present value. In this calculation, risk and administration costs are taken into account based on general assumptions, though tending towards an overestimate. The calculation shows no provisioning requirement as at 31 Dec. 2012.

Derivatives transactions that neither enter into the foreign currency valuation unit nor serve to control interest rate risks are valued according to the imparity principle at the balance sheet date. In pursuance of Article 249 Section 1 Clause 1 of the German Commercial Code, this has resulted in provision for contingent losses of EUR 6.2 million. Accrued interest is recognised for all derivatives.

NOTES ON ASSETS

Fixed assets

Please see the table "Movements in fixed asset balances" for details (pages 40/41).

Tangible assets

For 2012, depreciation came to EUR 2.7 million in total (previous year: EUR 2.7 million). This comprises depreciation on office furniture and equipment of EUR 1.4 million and on buildings of EUR 1.3 million.

For the 2009 financial year, depreciation on the DEG building in Kämmergasse included one-off tax depreciation under Article 254 of the German Commercial Code (old version) of EUR 1.0 million from the transfer of silent reserves from the proceeds of the sale of the land and buildings in Belvederestraße as per Article 6b of German Income Tax Law. The 2012 annual result increased by the sum of EUR 30,000 as a result.

In the 2012 financial year, DEG acquired a developed plot of land; the purchase price was EUR 3.3 million.

Investments in partner countries

This item shows investments from funds on own account of EUR 4,180.6 million, which are made up of participating interests and loans. Investments from trust funds of EUR 76.3 million are itemised as assets held under trust.

Own-account investments were made in 522 enterprises in 78 countries. These included three enterprises where the investments were partly financed out of German federal trust funds and by other trustee lenders. In seven enterprises, third parties entered into risk sub-participations in the form of counter-guarantees.

Foreign currency loans with a nominal value of EUR 2,770.5 million are almost wholly hedged by currency swaps and by taking up foreign currency loans.

Financial fixed assets with a residual maturity term of up to one year

	EUR million
1. Investments in partner countries	
a) Participating interests	-
Loans to undertakings in which DEG has a participating interest	33.5
c) Other loans	560.1
2. Other financial fixed assets	
a) Bonds and notes in current fixed assets	4.7
b) Other loans	0.0
Total	**598.3**

Please see the table “Movements in fixed asset balances” for details

Movements in fixed asset balances

	Original costs				
	1 Jan. 2012	Additions	Book transfers	Disposals	31 Dec. 2012
I. Intangible assets					
1. Purchased industrial property rights and similar rights and assets, including licences on such rights and assets	4,245,725	102,995	0	0	4,348,720
2. Payments in advance	0	820,598	173,563	0	994,161
II. Tangible and intangible assets					
1. Land and buildings	52,639,847	3,300,000	0	33,726	55,906,121
2. Office equipment	8,107,800	1,216,682	0	233,442	9,091,040
3. Payments in advance	173,563	194,035	-173,563	0	194,035
Total (I. + II.)	65,166,935	5,634,310	0	267,168	70,534,077
III. Financial fixed assets					
1. Investments in partner countries					
a) Participating interests	825,051,308	186,661,831	0	57,948,359	953,764,780
b) Loans to undertakings in which DEG has a participating interest	199,438,760	66,807,017	0	66,118,434	200,127,343
c) Other loans	3,280,728,702	1,121,510,663	0	968,432,911	3,433,806,454
Total 1. (a+b+c)	4,305,218,770	1,374,979,511	0	1,092,499,704	4,587,698,577
2. Other financial fixed assets					
a) Bonds and notes under current fixed assets	108,791,887	5,917,512	0	24,758,782	89,950,617
b) Other loans	731,638	122,077	0	186,065	667,650
	109,523,525	6,039,589	0	24,944,847	90,618,267
Total III. (1.+ 2.)	4,414,742,295	1,381,019,100	0	1,117,444,551	4,678,316,844
Total (I. + II. + III.)	**4,479,909,230**	**1,386,653,410**	**0**	**1,117,711,719**	**4,748,850,921**

Movements in fixed asset balances (continued)

	Value adjustments		Book value	Depreciation
	Write-up	Accumulated depreciation	31 Dec. 2012	2012
I. Intangible assets				
1. Purchased industrial property rights and similar rights and assets, including licences on such rights and assets	0	4,084,337	264,383	229,035
2. Payments in advance	0	0	994,161	0
II. Tangible and intangible assets				
1. Land and buildings	0	6,502,880	49,403,241	1,321,381
2. Office equipment	0	5,658,165	3,432,875	1,427,998
3. Payments in advance	0	0	194,035	0
Total (I. + II.)	0	16,245,382	54,288,695	2,978,414
III. Financial fixed assets				
1. Investments in partner countries				
a) Participating interests	17,806,362	161,512,362	792,252,418	51,395,773
b) Loans to undertakings in which DEG has a participating interest	3,672,949	12,540,413	187,586,930	2,760,523
c) Other loans	55,840,239	233,044,967	3,200,761,487	77,613,512
Total 1. (a+b+c)	77,319,550	407,097,742	4,180,600,835 [1]	131,769,808
2. Other financial fixed assets				
a) Bonds and notes under current fixed assets	1,313,611	698,925	89,251,692 [2]	1,465,968
b) Other loans	0	0	667,650	0
	1,313,611	698,925	89,919,342	1,465,968
Total III. (1.+ 2.)	78,633,161	407,826,667	4,270,520,177	133,235,776
Total (I. + II. + III.)	**78,633,161**	**424,072,049**	**4,324,808,872**	**136,214,190**

[1] Of which EUR 67.598.000 secured by unfunded risk participation
[2] Without accrued pro rata interest

Bonds and notes in current fixed assets

Bonds and notes in current fixed assets represents finance committed by DEG which has been securitised.

The item Bonds and notes under current fixed assets (EUR 90.7 million) comprises one convertible bond (EUR 13.0 million), one bond in respect of debt restructuring (EUR 0.0 million), and four further bonds (EUR 77.0 million). Accrued interest at balance sheet date was EUR 1.5 million. Portfolio value adjustment was EUR 0.7 million.

Amounts owed from investment activities

The EUR 40.9 million in amounts owed comprises largely dividends and interest due (including accrued interest at year end and commitment fees, as well as other amounts owed but not yet payable) and various reimbursement claims. This item also includes pro-rata accrued interest from swap agreements (EUR 15.9 million).

Amounts owed from disposal of investments

This item shows the purchase money proceeds from the sale or transfer of participating interests and loans as well as amounts owed with respect to these (e.g. interest payable on purchase money proceeds).

Amounts owed from consultancy and other services

These are reimbursements from trust funds charged to the Federal Ministry for Economic Cooperation and Development (BMZ).

Other assets

Other assets largely consists of amounts owed by consortium partners (EUR 14.1 million), amounts owed by the tax office (EUR 3.6 million), and a balancing item for accountancy purposes relating to foreign currency transactions in respect of the foreign currency valuation units (EUR 6.6 million).

Residual maturity profile of debtors, investments and other assets

EUR million	**Residual maturity**				
	up to 3 months	**more than 3 months up to 1 year**	**more than 1 year up to 5 years**	**more than 5 years**	**Total**
Amounts owed					
1. from investment activities	56.8	-	-	-	56.8
2. from disposal of investments	3.7	-	-	-	3.7
3. from consultancy and other services	0.3	-	-	-	0.3
Other assets	23.1	0.6	2.1	-	25.8
Total	**83.9**	**0.6**	**2.1**	**0.0**	**86.6**

Bonds and notes under current assets

The item Bonds and notes under current assets comprises a bond acquired in the amount of EUR 1.1 million for the purpose of hedging part-time work programmes for employees approaching retirement age.

Balances with banks

Balances with banks covers overnight and time deposits of EUR 120.0 million invested with the shareholder KfW, and current account balances of EUR 43.3 million. These include corporate funds temporarily awaiting investment in enterprises in partner countries.

Assets held under trust

This item includes investments in partner countries from trust funds in the form of participating interests of EUR 12.8 million, loans of EUR 53.1 million and additional trust funds from BMZ of EUR 4.2 million, as well as trust funds of EUR 2.3 million from the American development agency USAID and amounts owed on a trust basis of EUR 3.9 million.

EUR 44.9 million of lending is accounted for by the “Federal Republic of Germany’s Lending Programme for Business Start-Ups to Promote Start-ups of Small and Medium-sized Enterprises by Natural Persons in Developing Countries”, based on special joint lending funds with partner countries or institutions.

Deferred tax assets

There are taxable temporary differences that result in deferred tax liabilities of EUR 0.3 million. These are offset by deductible temporary differences, especially from provisions, which result in deferred tax assets in the amount of EUR 4.6 million. The choice to refrain from taking the deferred tax asset surplus into consideration was exercised. The deferred tax liabilities were assessed based on an overall tax rate of 32.45%.

NOTES ON LIABILITIES

Subscribed capital/Called-up capital

After deduction of unpaid subscribed capital in the sum of EUR 122.1 million from subscribed capital (as per Article 272 Section 1 Clause 3 of the German Commercial Code), called up capital comes to EUR 627.9 million.

Sole shareholder is KfW, Frankfurt am Main.

As a subsidiary of KfW, Frankfurt am Main, DEG is included in the consolidated accounts. These, along with the Management Report, may be obtained from KfW.

As a general rule under DEG's Articles of Association, profits are not distributed. Therefore, the limitation of profit distribution provided for by Article 268 Section 8 of the German Commercial Code for possible sums from the activation of internally produced intangible assets under current assets, or the activation of deferred tax, does not apply.

Purpose-tied reserve fund for complementary measures

Complementary measures are designed to enhance the developmental impacts of existing DEG financial involvements and create improved conditions to facilitate new ones. They include in particular: enterprise-level training and qualification measures, complementary environmental and social measures, pre-investment studies, specific consultancy measures, and the assignment of external experts.

To enhance developmental impacts, the sum of EUR 10.0 million was transferred from the previous year's net income to purpose-tied reserves in the 2012 financial year. EUR 2.5 million for the implementation of complementary measures and an additional EUR 1.0 million were transferred from existing reserves, since the 5-year appropriation term for the funds has elapsed.

Provisions for pensions and similar obligations

In accordance with Article 253 Section 2 Clause 2 of the German Commercial Code, provisions were discounted across the board at the average market interest rate, as published by Deutsche Bundesbank in November 2012, which results from an assumed residual maturity of 15 years. The interest rate was 5.05%, compared to the previous year's 5.13%. A rise in annual salaries of 3% and a pension rise of 2% or 1% respectively was assumed, depending on remuneration or pension scheme.

Provisions for taxation

Provisions for taxation are for corporation tax and local business tax of EUR 6.2 million in total for 2012.

Other provisions

Other provisions largely cater for risks in respect of loan financing for sureties and guarantees of EUR 11.3 million.

In addition, there are provisions for derivatives agreements that neither enter into the foreign currency valuation units, nor are used to control interest rate risks; these take the form of a provision for contingent losses (EUR 6.2 million), for variable remuneration (EUR 5.4 million), and interest saved in respect of future finance in ACP countries (EUR 2.1 million).

Amounts owed for financing investment activities

Amounts owed here refers specifically to loans against borrowers' notes in the amount of EUR 2,519.8 million placed with the shareholder KfW Bankengruppe (prev. yr.: EUR 2,153.0 million).

Other amounts owed

Other amounts owed includes specifically EUR 16.6 million from liabilities in respect of consortium partners and borrowers, EUR 8.0 million in respect of Bill & Melinda Gates Foundation funds, EUR 6.3 million in tax owed to the tax office for corporation tax and local business tax for 2011, and EUR 4.3 million from trust funds not yet forwarded.

Residual maturity profile of amounts owed

EUR million	Residual maturity				
	up to 3 months	more than 3 months up to 1 year	more than 1 year up to 5 years	more than 5 years	Total
1. Amounts owed for financing investment activities	137.0	198.2	2.023.5	226.6	2,585.2*
2. Amounts owed to trade creditors	1.4	-	-	-	1.4
3. Other amounts owed	35.3	0.7	8.3	2.3	46.6
Total	**173.7**	**198.9**	**2,031.8**	**228.8**	**2,633.2**

* of which EUR 2,579.3 million to the shareholder (prev. yr. EUR 2,409.2 million)

Liabilities for assets held under trust

The following were made available to DEG on a trust basis for the purpose of financing investments in partner countries and for business start-up loans: EUR 68.8 million from BMZ, a further EUR 4.2 million for business start-up loans in Afghanistan, an additional EUR 2.3 million from the US development agency USAID, and EUR 1.0 million from BMU.

Deferred tax liabilities

Since these were balanced out against deferred tax assets, they are not shown.

NOTES ON INCOME

Income from participating interests and loans

Income from participating interests and from loans in partner countries is largely made up of dividends, interest on loans and bonds and related hedging transactions, and commitment fees and commissions on loans. Break-down by region (excluding the results from hedging transactions) is as follows:

EUR million

	2012	2011
Africa	38.9	33.5
America	65.8	51.0
Asia	86.4	71.8
Europe	41.5	40.5
Total	**232.6**	**196.8**

Other interest receivable and similar income

For the most part, this item includes income from derivatives sales (EUR 1.5 million) and from sureties and guarantees (EUR 0.9 million), and balances at credit institutions (EUR 0.4 million).

Income from write-ups and write-back of provisions in respect of lending business and participating interests

The income is made up of write-ups as well as write-backs of redundant value adjustments for identifiable and latent risks and of provisions.

Other operating income

This item includes in particular income from the disposal of participating interests (EUR 87.5 million), from other services (EUR 8.6 million), from forward exchange contracts that may not be subsumed under macro or micro valuation units (EUR 7.5 million), and from consultancy (EUR 4.4 million).

Income of EUR 9.0 million (prev. yr.: EUR 11.2 million) resulted from foreign currency valuation as per Article 256a of the German Commercial Code, where residual maturity is a year or less.

Out-of-period income resulted from the write-back of EUR 3.7 million in other provisions, of which EUR 2.7 million related to the write-back of provision for contingent losses in respect of derivatives that may not be subsumed under the USD macro valuation unit.

NOTES ON CHARGES

Depreciation, value adjustments and provisions in respect of lending business and participating interests

This item shows transfers to provision for actual and potential risks (individual and portfolio value adjustments respectively).

Interest payable and similar charges

These charges were incurred largely on loans against borrowers' notes and bank loans (EUR 19.6 million) as well as the net result from derivatives hedging (EUR 1.4 million). There was also a charge arising from the sale of derivatives (EUR 9.1 million). For the 2012 financial year, the item also includes interest charges from the compounding of interest on pension and other long-term provisions in the sum of EUR 3.7 million (prev. yr. EUR 3.6 million).

Staff costs

Wages and salaries increased due to a rise in staff numbers and salary adjustments.

The charges for pensions and similar obligations of EUR 5.3 million consist largely of the transfer to provisions for pensions (EUR 3.8 million) and contributions to the Pension Association of Publicly Sponsored Companies (Versorgungsverband bundes- und landesgeförderter Unternehmen e.V. VBLU) (EUR 1.3 million).

Other operating charges

This item includes in particular charges for expert consultants and advisers (EUR 11.8 million), charges for futures transactions that may not be subsumed under the macro or micro valuation units (EUR 6.4 million), travel expenses (EUR 4.5 million) and charges for foreign currency valuation as per Article 256a of the German Commercial Code, where residual maturity is a year or less (EUR 7.7 million, prev. yr. EUR 3.7 million).

A charge of EUR 0.2 million relates to provision for contingent losses in respect of one forward exchange contract with a negative market value that may not be subsumed under a valuation unit.

Statement of auditing fees as provided by Article 285 Clause 1 No. 17

In the 2012 financial year, the following auditing fees were taken into consideration:
EUR million

	2012
Auditing fee	302,804
Other certification services	15,455
Tax consultancy services	21,098
Other services	24,200
Total	**363,557**

The statement of fees for auditing and other services includes charges for 2012 of EUR 3,379 that were not covered by corresponding provisions.

In the statement of fees for other certification services and tax consultancy services, write-backs of provisions from 2011 in the sum of EUR 18,894 are offset.

Taxes on income and profit

Tax charges of EUR 33.2 million in total, consisting of tax on profit for the 2012 financial year of EUR 22.7 million and foreign tax charges of EUR 10.5 million, are set against income from the write-back of provisions for tax of EUR 2.1 million for the 2011 financial year.

PROFIT FOR THE FINANCIAL YEAR/NET INCOME

The net income for the financial year of EUR 132.3 million exceeds the profit for the financial year by EUR 3.5 million, the sum withdrawn from the purpose-tied reserve fund; as stipulated in the Articles of Association, it may not be distributed.

NOTES ON DERIVATIVES TRANSACTIONS

In the context of risk management, DEG regularly engages in futures trading and makes use of derivatives products. These instruments are not used for trading purposes in the sense of items posted in the trading book, but are primarily deployed to hedge interest rate and currency risks in the asset book.

The market values of derivatives held in the portfolio represent current replacement costs. The positive and negative market values recorded are largely calculated based on in-house models. The main determinants of these in-house models are interest rate ratios and related rates of exchange.

Derivatives transactions

Volumes

EUR million	Nominal values		Positive market values	Negative market values
	31 Dec. 2011	31 Dec. 2012	31 Dec. 2012	31 Dec. 2012
Contracts with interest-rate risks				
Interest rate swaps	1,227.1	991.1	60.5	12.7
Interest rate options				
Long	-	-	-	-
Short	-	-	-	-
Interest rate cap agreements	-	-	-	-
Other interest-rate derivatives transactions	-	-	-	-
Total interest-rate risks	1,227.1	991.1	60.5	12.7
Contracts with currency risks				
Forward foreign exchange transactions, swaps	140.8	125.0	1.1	0.4
Currency and cross-currency interest-rate swaps	949.4	1,004.8	49.3	21.8
Foreign currency options				
Long	-	-	-	-
Short	-	-	-	-
Other forward supply transactions	-	-	-	-
Total currency risks	1,090.2	1,129.8	50.4	22.2
Total	**2,317.3**	**2,120.9**	**110.9**	**34.9**

Counterparties

EUR million	Nominal values		Positive market values	Negative market values
	31 Dec. 2011	31 Dec. 2012	31 Dec. 2012	31 Dec. 2012
OECD banks	2,317.3	2,120.9	110.9	34.9
Banks outside the OECD	-	-	-	-
Other counterparties	-	-	-	-
Other agencies in the OECD	-	-	-	-
Total	**2,317.3**	**2,120.9**	**110.9**	**34.9**

Maturities

nominal values, EUR million	Interest rate risks		Currency risks	
	31 Dec. 2011	31 Dec. 2012	31 Dec. 2012	31 Dec. 2012
Residual maturities				
up to 3 months	0.0	0.0	140.8	125.0
more than 3 months up to 1 year	204.6	105.8	21.1	45.0
more than 1 up to 5 years	592.5	666.4	455.5	582.2
more than 5 years	430.0	218.9	472.8	377.6
Total	**1,227.1**	**991.1**	**1,090.2**	**1,129.8**

For derivatives with a negative market value, provision for contingent losses of EUR 6.2 million was made as at the balance sheet date.

MISCELLANEOUS

Liability/Contingent liabilities

DEG stands surety to the value of EUR 29.0 million for 10 enterprises as collateral for borrowing.

In relation to one individual case, provision of EUR 10.8 million was made in respect of the possibility that contingent liabilities may be incurred. Provision of EUR 0.5 million was made for potential risks.

At the balance sheet date, DEG's shares in three participating interests with a book value of EUR 6.9 million were pledged as collateral in respect of liabilities of the enterprises in question.

Given the credit ratings of the enterprises in question, there is no expectation that any liability/contingent liabilities incurred will go beyond the scope of the provision made for this purpose as at the balance sheet date.

Other financial obligations

DEG is required to pay a total of EUR 0.4 million annually under tenancy agreements that run until 2019.

A total of EUR 0.1 million will be payable in fees on leasing contracts for the remaining term until 2016.

Obligations from undisbursed participating interests and loans amount to EUR 1,166.2 million.

In addition, there are commitments to stand surety in the sum of EUR 21.5 million.

In individual cases, employees of DEG, or third parties instructed by DEG, undertake executive functions in associated companies. The risks arising are generally covered by Directors' and Officers' liability insurance (D&O insurance) taken out by the company in question. In cases where no effective insurance cover exists, liability risks may arise for DEG.

AVERAGE NUMBER OF STAFF OVER THE YEAR

Staff not covered by regular pay scales and senior executives	312
Staff covered by regular pay scales	161
Number of female staff	242
Number of male staff	231
Total	**473**

These figures include part-time staff (70) and temporary staff (32), but not members of the Management Board, staff on parental leave, apprentices, interns, or local staff in foreign countries.

REMUNERATION OF CORPORATE BODIES

Total charges for the Supervisory Board in the year under review came to EUR 20,525, of which EUR 12,913 was made up of annual remuneration for membership of the Supervisory Board and its committees, attendance fees and daily allowances; reimbursement of travel expenses accounted for EUR 6,183 and entertainment costs for EUR 1,429.

Management Board remuneration for the 2012 financial year came to EUR 1,344,290 in total. Current annual salary components were set at a uniform rate of EUR 327,048 for all members of the Management Board. This includes the sum of EUR 83,039 for benefits in kind and other emoluments. The performance-related bonus for 2011 was EUR 239,666 in total, of which EUR 119,833 will be paid out over several years. The first staggered payment of EUR 40,441 from deferred bonuses for 2011 was made in 2012.

Total payments made to former members of the Management Board and surviving dependants amounted to EUR 729,420. Pension provisions for these persons amounted to EUR 9,752,144.

Information on investment holdings as per article 285, no. 11 of the German Commercial Code (HGB)

the following table lists DEG´s investment holding as of 31 December 2012 in accordance with article 285 No. 11 of the German Commercial Code (HGB) from 20%.

	P. No.	Business name and registered office	Currency[1)]	Rate 1,00 EUR = ... CU[2)] (as of 31 Dec. 2012)	DEG holding in per cent	Equity in TCU[3)]	Result in TCU[3)]
A. Home							
1.	P 4216	PCC-DEG Renewables GmbH Duisburg, Germany	EUR	1.00000	40.00	18,012	192
B. Abroad							
	I. Africa						
2.	P 1147	Banque Nationale de Développement Agricole Bamako, Mali	XOF	655.95700	21.43	17,936,564	4,872,755
3.	P 4181	Tourism Promotion Services Ltd. Kigali, Rwanda	RWF	815.11000	26.67	10,141,216	118,868
4.	P 4422	Banyan Tree Growth Capital LLC Port Louis, Mauritius	USD	1.31940	27.00	66,760	-2,005
5.	P 5062	Lereko Metier Sustainable Capital Fund Sandhurst, South Africa	ZAR	11.17270	32.50	4)	4)
6.	P 5122	Berkeley Energy Wind Mauritius Ltd. Ebene, Mauritius	EUR	1.00000	20.60	19,464	578
7.	P 5283	Lereko Metier Solafrica Fund I Trust Johannesburg, South Africa	ZAR	11.17270	47.60	4)	4)
8.	P 5442	Banyan Tree Growth Capital - II LLC Port Louis, Mauritius	USD	1.31940	24.62	4)	4)
	II. America						
9.	P 2782	The SEAF Central and Eastern Europe Growth Fund Washington D.C., USA	USD	1.31940	25.00	10,747	-1,781
10.	P 3977	SAE Towers, L. P. Washington D.C., USA	USD	1.31940	26.9	6,511	-5
11.	P 4534	Kendall Court Mezzanine (Asia) Bristol Merit Fund L. P. Grand Cayman, Cayman Islands	USD	1.31940	24.37	30,608	2,127
12.	P 4557	Tolstoi Investimentos S. A. São Paulo, Brazil	BRL	2.70055	31.14	71,527	-11,921
13.	P 4580	Acon Latin American Opportunities Fund-A, L. P., Washington D.C., USA	USD	1.31940	40.00	41,516	5,151
14.	P 4942	EMX Capital Partners LP Mexico City, Mexico	USD	1.31940	39.19	3,668	-438
15.	P 5085	Mongolia Opportunities Fund I L. P. Grand Cayman, Cayman Islands	USD	1.31940	20.00	207	-672
16.	P 5102	Worldwide Group Inc. Charlestown, St. Kitts and Nevis	USD	1.31940	32.28	18,237	581
17.	P 5140	Fundo Mútuo de Investimentos em Empresas Emergentes Stratus Fleet São Paulo, Brazil	BRL	2.70055	39.69	29,486	-394
18.	P 5142	Russia Partners Technology Fund LP New York, USA	USD	1.31940	21.75	10,659	-697
19.	P 5194	Desarrollos Eólicos Maxicanos 2 S. A. Mexico City, Mexico	MXN	17.16757	20.00	-164	-213
20.	P 5240	Grassroots Business Investors Fund L. P. Washington D.C., USA	USD	1.31940	33.32	7,522	-984
21.	P 5300	Latin Renewables Infrastructure Fund, L. P., New York, USA	USD	1.31940	29.63	4)	4)
22.	P 5340	Duet Beverage Africa Holdings Ltd. Tortula, Brit. Virgin Islands	USD	1.31940	20.87	4)	4)

	P. No.	Business name and registered office	Currency[1)]	Rate 1,00 EUR = ... CU[2)] (as of 31 Dec. 2012)	DEG holding in per cent	Equity in TCU[3)]	Result in TCU[3)]
	III. Asia						
23.	P 2502	H&Q Philippine Holdings, Inc. Manila, Philippines	PHP	54.07800	49.98	2,560	-314
24.	P 2787	Benetex Industries Ltd. Dhaka, Bangladesh	BDT	105.25225	28.30	-91,615	-272,157
25.	P 3283	Langfang Hess Building Materials Machinery Co. Ltd. Langfang, China	CNY	8.22070	40.00	40,243	915
26.	P 3594	Jade Cargo International Co. Ltd. Shenzhen, China	CNY	8.22070	24.00	-522,061 [5)]	149,383 [5)]
27.	P 3763	HaPe International Ningbo Ltd. Ningbo, China	CNY	8.22070	37.50	95,034	9,181
28.	P 3807	Wanfeng MotorcycleWheel Co. Ltd. Xinchang, China	CNY	8.22070	25.00	715,941	164,461
29.	P 3878	Ace Power Pvt. Ltd. Colombo, Sri Lanka	LKR	168.43000	26.00	3,824,156	473,381
30.	P 4518	OJSC Tourism Promotion Services Dushanbe, Tajikistan	TJS	6.27850	21.01	72,486	-6,070
31.	P 4538	Asia Insurance 1950 Company Ltd. Bangkok, Thailand	THB	40.35990	24.62	176,227	1,822
32.	P 4545	WPD Energy Vietnam Company Ltd. Hanoi, Vietnam	VND	27.48692	30.00	-528,001	-371,314
33.	P 4791	PT Avrist Assurance Jakarta, Indonesien	IDR	12.71139	23.00	1,972,407,000	245,886,000
34.	P 4976	Windprojektentwicklung Thailand Bangkok, Thailand	THB	40.35990	33.33	12,295	-295
35.	P 5505	ADP Enterprises W.L.L. Manama, Bahrain	BHD	0.49725	23.50	[4)]	[4)]
	IV. Europe						
36.	P 2562	TOO Knauf Gips Kaptschagaij GmbH Kapchagay, Kazakhstan	KZT	198.78500	40.00	9,401.853	1,797,792
37.	P 3445	Tirana Airport Partners SHPK Rinas, Albania	EUR	1.00000	31.70	29.959	10,194
38.	P 3511	Center-Invest Bank Rostov-on-Don, Russian Federation	RUB	40.32950	22.45	6,686.059	912,176
39.	P 3665	TOO Isi Gips Inder Inderborskij, Kazakhstan	KZT	198.78500	40.00	1,501.076	176,392
40.	P 4095	Emerging Europe Leasing and Finance (EELF) B.V., Amsterdam, Netherlands	EUR	1.00000	25.00	16.562	-2,616
41.	P 4193	Bucharagips AG Bukhara, Uzbekistan	UZS	2.615.51000	25.00	2,128.986	-1,738,490
42.	P 4641	OOO Gematek Saint Petersburg, Russian Federation	RUB	40.32950	27.95	306.000	15,395
43.	P 4971	Knauf Gips Buchara OOO Buchara, Uzbekistan	UZS	2.615.51000	24.88	29,507.641	-7,029,538
44.	P 5125	EMF NEIF I (A) L.P. Southampton, United Kingdom	USD	1.31940	28.29	[4)]	[4)]
45.	P 5203	Clean Energy Transition Fund LP. St. Peter Port, Guernsey	EUR	1.00000	23.08	350	-782
46.	P 5388	AGF Latin America LP London, United Kingdom	USD	1.31940	21.00	[4)]	[4)]

1. ISO currency code.
2. CU currency units in local currency
3. TCU = 1,000 local currency units
4. Enterprise in start-up phase; no annual statements of accounts available yet
5. Enterprise is being wound up. Last audited annual statements of accounts dated 31. Dec. 2010

CORPORATE BODIES

Supervisory Board

Gudrun Kopp
Chairwoman
Parliamentary State Secretary,
Federal Ministry for Economic
Cooperation and Development,
Berlin

Dr. Norbert Kloppenburg
First Deputy Chairman
Member of the Board of
Managing Directors, KfW,
Frankfurt am Main

Dr. Hans-Jörg Todt
Second Deputy Chairman
Management Consultant,
Bad Homburg

Eberhard Brandes
CEO WWF Germany,
Berlin

Dr. Harald Braun
State Secretary,
Federal Foreign Office,
Berlin

Ernst Burgbacher
Parliamentary State Secretary,
Federal Ministry of Economics
and Technology,
Berlin

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Assistant Director of the
Finance Department, Proparco,
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Managing Partner
Kirchhoff Automotive GmbH & Co. KG,
Attendorn

Hartmut Koschyk
Parliamentary State Secretary,
Federal Ministry of Finance,
Berlin

Siegmar Mosdorf
Parliamentary State Secretary (ret.)
Partner at CNC – Communications
& Network Consulting AG,
Berlin

Dr. Ulrich Schröder
Chairman of the Executive Board,
KfW, Frankfurt am Main

Prof. Dr. Beatrice Weder di Mauro
Professor of Economics
Johannes Gutenberg University,
Mainz

Management Board

Dr. Michael Bornmann

Philipp Kreutz

Bruno Wenn (Chairman)

Cologne, 13 February 2013

DEG – Deutsche Investitions- und
Entwicklungsgesellschaft mbH

Management Board
Dr. Bornmann Kreutz Wenn

AUDITOR'S REPORT

We have audited the Annual Statements of Accounts – consisting of the Balance Sheet, the Profit and Loss Account and Appendix – including the accounting system and the Management Report – of DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne, for the financial year from 1 January to 31 December 2012. Responsibility for keeping the books and records and preparing the Annual Statements of Accounts and the Management Report, in compliance with the provisions of the German Commercial Code (HGB) and the supplementary provisions of the Articles of Association, rests with the Company's Board of Management. Our task is to provide an opinion, based on our audit, on the Annual Statements of Accounts, including the accounting system, and on the Management Report.

We conducted our audit of the Annual Statements of Accounts in accordance with Article 317 of the German Commercial Code (HGB) and in compliance with the generally accepted German standards for auditing financial statements established by the Institut der Wirtschaftsprüfer (German Institute of Accountants – IDW). Those standards require that we plan and perform the audit with reasonable assurance of detecting material misstatements and infringements affecting the presentation of the net worth, financial and earnings position in the Annual Statements of Accounts as prepared in accordance with German accounting principles, as well as in the Management Report. The audit procedures adopted take account of information about the Company's business activities and its economic and legal environment as well as expectations relating to possible errors. For the most part, the effectiveness of the accounting-related internal audit system and evidence supporting the amounts and disclosures in the books and records, the Annual Statements of Accounts and the Management Report, are examined on the basis of spot checks. The audit includes an assessment of the accounting principles used and significant estimates made by the members of the Company's Management Board, as well as an evaluation of the overall presentation of the Annual Statements of Accounts and the Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not given rise to any objections.

In our judgement, based on the audit findings, the Annual Statements of Accounts comply with the statutory regulations and the supplementary provisions in the Articles of Association and give a true and fair view of the net worth, financial and earnings position of the Company in accordance with German accounting principles. The Management Report conforms to the Annual Statements of Accounts, provides a true understanding of the Company's position overall and presents an accurate picture of the opportunities and risks of future development.

Düsseldorf, 14 February 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Jörg Kügler	Myriam Lehnen
Auditor	Auditor

IMPRINT

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DEG - Deutsche Investitions- und
Entwicklungsgesellschaft mbH
Kämmergasse 22
50676 Cologne, Germany
Box 10 09 61, 50449 Cologne, Germany
Phone +49 221 4986-0
Fax +49 221 4986-1290

info@deginvest.de
www.deginvest.de

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Cologne, April 2013

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DEG - Deutsche Investitions- und
Entwicklungsgesellschaft mbH
Kämmergasse 22
50676 Cologne, Germany
Phone +49 221 4986-0
Fax +49 221 4986-1290
info@deginvest.de
www.deginvest.de